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Volume Author/Editor: Benjamin H. Higgins

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Chapter Author: Benjamin H. Higgins

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Chapter 6

Postwar Transition and the Future of Lombard Street

THE ANALYSIS in the foregoing chapters indicates that what has happened to the various institutions comprising the British money market cannot be regarded merely as the results of World War II, or even exclusively as the results of wars and depressions in the past 35 years. Events in these years have merely accelerated changes that were appearing before World War I. Sooner or later, some of the changes in the structure and operations of Lombard Street would probably have occurred anyway, if only because of changes in Britain's position in the world as producer and trader.[1]

At time of writing, the war has been over for nearly two and one-half years, and some evidence is available of the extent to which a reversal of wartime trends can be expected. The postwar picture has been complicated, however, by the election in 1945 of a labor government committed to financial reforms of various kinds. It is difficult to distinguish the effects of war and reconstruction from the effects of the election. Of course, a good case could be made for the argument that the election of a labor government was itself the result of the events of the two world wars and of the reconstruction period between them. As the editor of the *Midland Bank Review* has put it, "before the war the trend was already set towards more extensive and more positive Government intervention in economic affairs. What happened in July last year gave a sharp upward turn to a curve that was already rising."[2] However, support of this thesis would require much more than economic analysis and cannot be provided here. Suffice it to say that some of the labor party legislation relating to the operations of Lombard Street was proposed by the previous government, and that it is at least to some extent the direct outcome of the long process of development since 1913.

[1] "Of course, it had been perfectly evident long before [1919] that British pre-eminence could not persist. By 1875 she was seriously challenged; by 1913 she was probably no longer the world's leading or even second industrial nation, and others were not far behind her. But it was not until after the war that the impact of these long-run factors was fully felt and the need for drastic readjustment made perfectly clear." Alfred E. Kahn, *Great Britain in the World Economy* (New York 1946) p. 65.

[2] "Three Aspects of Transition," *Midland Bank Review*, May 1946, p. 1.

The nationalization of the Bank of England, under the Bank of England Act of February 1946, illustrates this point. The necessities of war and reconstruction brought the Bank and the Treasury into closer relationship, and the operations of the Bank were guided to an increasing extent by the demands of national fiscal policy. Nationalization of the Bank consequently became an easy step, and for a labor government a rather obvious one.

The main provisions of the Act are set forth in Sections one (compensation of the Bank's stockholders), two (Court of Directors), and four (Treasury directions to the Bank and relations of the Bank with other banks). In effect, the bargain made with the stockholders was such as to maintain for twenty years the income received on their investment. They received for their bank stock an equivalent amount of government stock which "shall bear interest at the rate of three percent per annum; and the equivalent amount of Government stock shall, in relation to any person, be taken to be such that the sum payable annually by way of interest thereon is equal to the average annual gross dividend declared during the period of twenty years immediately preceding the thirty-first day of March, nineteen hundred and forty five, upon the amount of Bank stock of which that person was the registered holder immediately before the appointed day" (March 1, 1946). However, the government stock may be redeemed at par by the Treasury on or any time after April 5, 1966.

Under Section two, the number of directors was reduced from 24 to 16, appointed by the Crown for four years. The term of office of the governor and of the deputy-governor was extended to five years, subject to renewal.

Section four was the only one that really perturbed the City. Under this section, "The Treasury may from time to time give such directions to the Bank as, after consultation with the Governor of the Bank, they think necessary in the public interest"; and "The Bank, if they think it necessary in the public interest, may request information from and make recommendations to bankers, and may, if so authorized by the Treasury, issue directions to any banker for the purpose of securing that effect is given to any such request or recommendation."

According to *The Economist,* "there is no denying that the City is disturbed about the breadth of these powers." On the other hand, "it is doubtful whether this clause does anything more than formalise a state of affairs that already exists. Requests from the Bank have never been lightly ignored in the City, and the whole structure of monetary control might collapse if the unwritten conventions on which it is based . . . could not be enforced in the last resort." Similarly, "it is widely recognised that, although the Government seeks wide legal powers, it does not really intend to do much (if anything) more than has been done less formally in the past few years . . . Hence the whole case against this subsection rests on the argument that it could be abused by a future and less discreet Government . . . But if a Government wants to do what the City might regard as unreasonable things . . . it will do them whether there is a pre-existing legal power or not . . ."[3]

On the whole, nationalization leaves the Bank's position in the British money market, and in the world, unchanged. It is merely a formal recognition of what the Bank had clearly become and in a sense always was: a government institution and agent.

The Bank has not resumed stewardship of the nation's monetary gold, and it seems unlikely that it will do so in the near future. The separation of exchange funds from central bank reserves has administrative advantages that commend themselves to British financial officials. It also gives internal monetary policy a greater degree of independence from the foreign exchange position, although the mere establishment of a separate foreign exchange institution will certainly not provide the British economy with a cushion deep enough to prevent outside shocks from having internal repercussions. The reserve ratio of the Banking Department rose considerably throughout 1947 and early 1948. However, it is unlikely that the Bank's reserve ratio will regain its earlier significance as an index of the liquidity and safety of the Bank, and as a guide to monetary policy.

Apparently the rediscount rate also has lost much of its significance in the British money market. In March 1948, Bank rate was the same as at the end of October 1939—2 percent—and while it may be changed at some time in the future it is difficult to attribute significance to a discount rate that has remained unchanged for so long a period. England has depended more on fiscal policy, price policy, direct control of foreign exchange, etc., than on the traditional central banking measures for control of economic and financial conditions.

It is perhaps not even too much to say that "central bank policy" will become a meaningless phrase in England. The highly skilled personnel of the Bank will be consulted, and their advice will be seriously considered, when general economic and financial policy is formulated; but the Bank itself will be merely one of several government agencies which contribute to policy determination and through which policies

[3] *The Economist,* October 13, 1945, p. 514, and October 20, 1945, p. 570.

are executed. Its executive role will be limited largely to providing joint stock banks with whatever reserves are needed to permit lending to government and business in the volume considered appropriate to general economic policies for maintaining full employment, preventing inflation, stimulating exports, and so forth.[4]

The rate of monetary expansion promoted by (or through) the Bank fell off after the war. In the first postwar year the note circulation of the Bank rose by about £42 million and notes held by the Banking Department by £8 million; thus total notes issued were less than the amount issued in any war year and less than one-third of the increase in the last year of war. From September 1946 to September 1947, the note circulation rose only £25 million; notes held by the Banking Department also increased by £25 million, reflecting a £50 million increase in the fiduciary issue during this period. In the six months following, notes in circulation actually fell, while notes held in the Banking Department rose to a peak in January 1948 and then decreased sharply. During this period the amount of the fiduciary issue was cut by £150 million. In the first postwar year the increase in bankers' deposits was around £70 million, about twice that of the previous year; in the second postwar year such deposits decreased £15 million; and in the following six months they fluctuated somewhat but ended the period with an increase of about £25 million. The net effect was a small expansion of bank reserves over the two and one-half year period. It seems likely that, while consumers' goods remain scarce, the lifting of the pressure of war finance and the fact that the budget is approaching balance will result in a British monetary policy which for some time will be considerably less expansionary than that of the war period.

Joint Stock Banks

Postwar legislation has not fundamentally altered the position of the joint stock banks. As indicated above, Section 4 of the Bank of England Act provides the government with greater formal control over the operations of the commercial banks, but it has not created any truly new relationship of the banks to the central bank or to the Treasury. There has been no suggestion thus far that the clause will be used so as to interfere with the confidential nature of the relationship of banks to their clients. It is not clear that the Treasury intends to control the allocation of credit among particular clients, although the determination of certain priorities for credit among various types of enterprise would

[4] See the previous government's White Paper, *Employment Policy*, Cmd. 6527 (May 1944), especially Chapters IV and V. This White Paper has not been officially retracted by the labor government, and probably represents their view to a large extent.

seem to be implicit in government policy.[5] On the whole, the Act leaves the day-to-day transactions of the joint stock banks much as they were.

Cheaper Money

More directly significant for the prosperity of the joint stock banks was Chancellor Dalton's drive for still cheaper money. In Britain, the "costless credit" controversy has been of real significance, and now that Britain is governed by a party whose intellectual leaders have often pressed for costless credit,[6] the controversy is much more than academic. The nationalization of the Bank of England, and of the leading banks of France, might be regarded as examples to be followed in the case of all British banks. Moreover, just as the problems of war and reconstruction have led to closer relationship between the Treasury and the Bank of England, so the banking system as a whole has become more and more the agent of government policy.

So far, there is no indication that the present British government has plans for nationalizing the British banking system as a whole. Instead, the government seems to be striving to achieve "costless credit" through reduction in short-term interest rates. An announcement that the Chancellor was "studying the possibility of cheaper money and lower rates of interest" was made in September 1945, on the eve of a loan campaign. It seems likely that a desire to create an active market for the new obligations to be issued during this campaign played some role in the government's decision to reduce interest rates still further below the level of September 1945. In addition, however, three considerations seem to have influenced the government in its interest policy: (1) the desire to minimize the debt service, in view of the enormous wartime growth of national debt and the possibility that the problems of reconstruction would result in still further increases; (2) the hypothesis that, to the extent that the policy succeeds in reducing those interest rates which enter into investment decisions, the govern-

[5] In Parliamentary debates on the Bill, the Chancellor of the Exchequer made statements indicating that the Treasury has such a procedure in mind: " . . it is essential that we should be able, in the last resort, to establish priorities in the disposal of short-term funds in the same manner as we shall, in a later measure . . . assure priorities of national interest in regard to long-term credit . . . it may be desirable, in certain circumstances, to urge the banks to devote their resources to one or other form of investment, which it was felt by the Government and by the Bank of England was necessary in the interests of a planned priority, with a view to securing full employment in the country and building up our export trade and other necessary elements in our economy" . . . Quoted in *The Economist*, February 16, 1946, p. 260.

[6] See, for example, the Fabian Society pamphlet, *The Prevention of General Unemployment* (Research Series No. 79, London, 1944), and "Costless Credit: The Fabian Reply," *The Banker*, May 1944, p. 84.

ment would be aided in its avowed aim of maintaining a high and stable level of employment; (3) the wish of the government to finance its huge housing program at interest rates as low as possible.

To launch the cheap money policy, the rate on Treasury deposit receipts was reduced on October 22, 1945 from 1⅛ percent to ⅝ of 1 percent (Chart 5). The Treasury bill rate was accordingly adjusted to a ½ of 1 percent basis. In response to these reductions in the return on short-term earning assets, the London Clearing Banks gave notice that after November 30, 1945 no interest would be paid on current accounts, and the maximum rates on deposit accounts would be cut from 1 percent to ½ percent. Moreover, deposit accounts were henceforth to be left for a minimum of fourteen days instead of seven days.

The government's method of launching an attack on the general pattern of interest rates was a novel one, and was clearly an outgrowth of wartime experience. As the editor of *The Economist* put it, the Chancellor in "harmonising the banks" chose for his "tonal system . . . not the classical scale, but something more modern—and to many ears, more dissonant. For he has begun, not by establishing a lower and effective Bank Rate, but by operating on one particular rate which, owing to the technical characteristics of the great expansion of wartime finance in Britain's closed economy, offers the least resistance to changes in terms imposed by the borrower."[7]

At time of writing, the fate of the cheap money policy itself seems uncertain. In May 1947, Chancellor Dalton began to have qualms about the growth of the floating debt, and called for consolidation, while still aiming at 2½ percent on long-term issues.[8] In the following month, for the first time since the war began, a government issue (Southern Rhodesia) was offered through normal city channels instead of official channels; and it was offered at a price 1 point less, and with five years' shorter life, than the previous important new long-term issues (Cities of Derby and Newcastle). These actions represented the

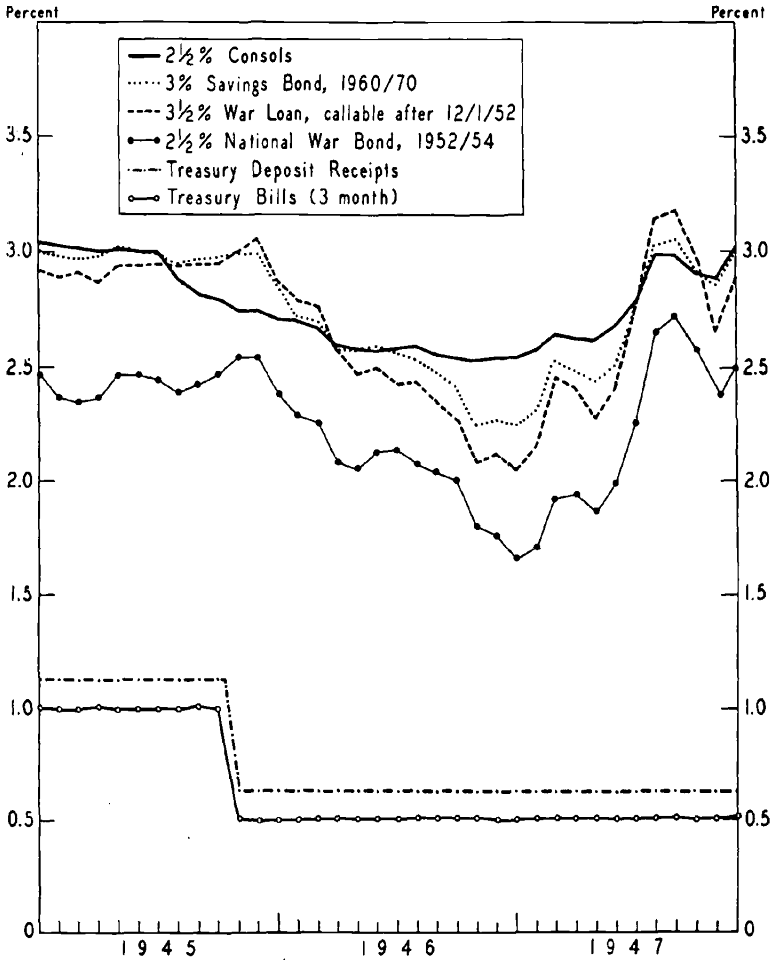
[7] *The Economist,* October 27, 1945, p. 601.

[8] Chancellor Dalton justified his indifference to the rise in floating debt a year earlier, "because we were then carrying through the cheap money drive with the object of arriving at a basis of 2½ per cent long-term. We have got that. Later, we may advance towards other objectives, but at the moment we are consolidating the 2½ per cent long-term.

. . . If we are in position to consolidate 2½ per cent long-term and also gradually to reduce the floating debt through a Budget surplus, then, indeed, we are getting the best of both worlds, and we are very well content. Therefore, we have now reached a point where a reduction in the floating debt is a very desirable subsidiary process to what we have been carrying on in the reduction of long-term interest rates. I hope that by the end of this financial year we shall have seen both a firming-up of the 2½ per cent long-term rate and also a reduction of the floating debt." (Quoted in *The Economist,* May 24, 1947, p. 812.)

Chart 5—YIELDS ON SELECTED GOVERNMENT OBLIGATIONS, UNITED KINGDOM[a]

(monthly averages of daily yields[b])



a Sources: Bank of Canada, *Statistical Summary;* Bank of England, *Statistical Summary; Monthly Digest of Statistics* (London).

b For 2½ percent Consols, a flat yield is taken irrespective of price. For 2½ percent National War Bond (1952/54) and 3 percent Savings Bond (1960/70), redemption is assumed in 1954 and 1970, respectively, if price is below par, and in 1952 and 1960, respectively, if price is above par. For 3½ percent War Loan, a flat yield is taken if price is below par, and redemption is assumed in 1952 if price is above par. Income tax is neglected in calculating the yields. For Treasury Bills, a tender rate is taken as close as possible to the fifteenth of the month.

Chancellor's "awakening to realities" in the capital market, which had begun to weaken in February. The fuel crisis, unfavorable City reaction to the terms of the rail nationalization bill, and other immediate incidents are part of the explanation of the decline in long-terms; but the more basic difficulty, of "deliberately engineering a further reduction in interest rates in a period of acute postwar scarcity of capital, when the physical controls which are the only substitute for financial controls were inevitably growing steadily weaker,"[9] was perhaps a more important part. At the end of the second postwar year, yields on consols and most other government bonds were above the level of October 1945. In the six months following, yields on consols continued to rise, but yields on other governments steadied. However, the announcement of the "deflationary budget" for 1949, with its special levy on investment income, led to a further fall in prices of fixed interest securities, despite the Chancellor's assurance that the levy ("special contribution") would be a "once-for-all" affair.

Some observers hailed the issue by Chancellor Dalton's successor, Sir Stafford Cripps, of a 1978-88 stock at 3 percent as evidence of official abandonment of the cheap money policy;[10] but it would be hazardous at this time to regard recent increases in yields on government securities as a reversal of the long-term downward trend.

The general scarcity of "real" reserves of capital, in the form of inventories and plant and equipment in good condition, combined with heavy borrowing for government undertakings, is likely to continue in England for several years.[11] Bank holdings of government securities will probably continue to expand. Provided growing portfolios of government obligations are accompanied by a corresponding growth of total assets and do not require displacement of higher-yield assets, bank profits (as distinct from the average rate of return on assets) will tend to rise as long as interest rates are above zero. If, however, banks should expand their holdings of government securities at the expense of advances to private customers, or should replace earlier issues of government securities with new issues bearing lower rates of interest, bank profits will tend to fall unless total assets expand fast enough to offset the decline in average rate of return on assets.

Asset Structure

In contrast to the Bank of England statement, the balance sheets of

[9] *The Economist,* July 5, 1947, p. 25.

[10] Cf. "End of Cheaper Money," *The Banker,* February 1948, p. 61.

[11] See International Labour Office, Report II, 1945, *Maintaining High Levels of Employment in the Period of Industrial Rehabilitation and Reconversion,* Chapter 2, and literature there cited.

the joint stock banks have shown some reversal of wartime trends, especially with regard to the structure of assets. The first two and one-half postwar years saw a notable expansion of advances, both in absolute and relative terms. In 1947 their volume surpassed their peak prewar level, but as a percentage of total assets, advances remained far below prewar figures. Investments reached a new peak in October 1947 and declined slightly in the following months; relative to total assets, however, they showed no great change. The most striking change was in the relationship of bills discounted to Treasury deposit receipts. Bills ceased to dwindle and expanded rapidly, while TDR's stopped expanding rapidly and began to dwindle.

The increase in Treasury bill holdings and the decrease in holdings of Treasury deposit receipts reflect a change in Treasury policy rather than in joint stock bank policy. Not that the banks were averse to the shift of short-term government financing from TDR's to bills; bills have certain advantages that recommend them to the banks. They are somewhat more liquid than TDR's since they have a shorter average life and can be cashed without penalty. However, the banks are still in the position of having to take whatever short-term obligations the government offers them; and the altered structure of bank assets is the result of a change in the relative supply of, rather than the relative demand for, bills and TDR's. Starting in September 1945, the Treasury began retiring TDR's, and in the two years following reduced the outstanding volume in nearly every month. From August 11, 1945 to August 16, 1947, the volume of TDR's outstanding was reduced by £749 million, while the outstanding volume of Treasury bills was increased by £618.5 million.[12] In the next six months the banks' holdings of bills and TDR's showed little change.

The expansion of bank investments in the first postwar years, at a rate faster than during the war itself, was due to several factors. First, since the retirement of TDR's roughly offset the expansion of Treasury bills, the short-term debt available to the banking system was more or less stable; any significant net increase in holdings of government securities had accordingly to take the form of longer-term investments. Second, the first year of reconversion failed to bring about a significant expansion of advances. Third, the first months of the Chancellor's cheap money campaign produced anomalies in the structure of interest rates,

[12] *The Banker,* September 1946, p. 176 and September 1947, p. 191. Closing the "tap" for 2½ percent Savings Bonds in July 1946, redeeming the unconverted portion of the National War Bonds 1946-48, and meeting heavy day-to-day expenditures, required a net expansion of TDR's in the summer of 1946; but "this reliance upon T.D.R.'s" at that time "could not properly be regarded as a reversal of policy" (*The Banker,* October 1946, p. 6).

particularly in short-dated bonds, that made investments particularly attractive to the banks from the point of view of yield. Fourth, as a result of lower yields and the expectation of increased supplies of consumers' goods, raw materials, and equipment, the "liquidity preference" of the general public, and especially of business, increased after the war, leading to a smaller net absorption of gilt-edged securities by the public, and necessitating the absorption of a larger share of new government issues by the banks and by government departments. Finally, the banks were provided with additional reserves to enable them to expand their portfolios of government securities.

Prognosis of future developments of bank advances is aided somewhat by analysis of the postwar composition of bank lending.[13] In August 1947, "other advances," consisting mainly of personal and professional loans, were the largest single category, as they had been before the war. Financial loans, which include advances to banks, insurance companies, and a small amount of lending to stockbrokers, fell in relative terms but their absolute amount was slightly more than in 1938 and considerably greater than in August 1946. Loans to the building trades were almost the same in absolute amount as in 1938 although they had dropped from fourth to eighth place. Increases were registered in the majority of categories, with the greatest expansion in loans to heavy industry. Although these changes in the composition of bank advances reflect to a considerable degree the special financial needs of reconstruction and reconversion, there is no evidence in the developments to August 1947 that further expansion of advances after the transition period are not possible.

The volume of bank deposits continued to rise in the first two postwar years. After an initial contraction from September 1945 to February 1946, deposits increased for several months at a more rapid rate than at any time during the war, the expansion being mainly in business, financial, and local authority accounts, rather than in personal accounts. W. T. C. King attributed the rapidity of the rise in large measure to an unusually heavy "concealed absorption" of government securities by government departments, in support of the cheaper money policy.[14] He estimated this "concealed absorption" for the eleven months from the beginning of the cheaper money drive to the end of August 1946 at £529 million, compared with £421 million in the same period in 1945.[15] The approach to budget balance in 1947 produced a fairly stable volume of deposits.

13 See Appendix Table C.

14 *The Banker,* October 1946, pp. 7-8.

15 *Ibid.,* p. 15. See also "Cheap Money and Unfunding," *The Economist,* September 7, 1946, pp. 382-84.

The ratio of published capital and reserves to total liabilities continued to fall after the war, dropping well below the customary prewar level. Some of the banks apparently contemplated new issues. But, as *The Economist* had very rightly pointed out, "The exact role which 'capital' plays in modern banking is difficult to define." [16] True, "in the old days, the capital account was an additional security for the depositor, since it defined the proportions in which unfortunate subscribers could be compelled to contribute, to the limit of their fortunes, in the event of failure. But with the spread of limited liability, this function has long disappeared." It is highly doubtful in view of the changing structure of bank assets "whether orthodox principles ought now to be regarded as a proper guide to bank capitalization policy. If the banks increase their capital in order to buttress their expanding gilt-edged position, the very object of that expansion will be to some extent frustrated, because the additional earnings will need to be spread over larger shareholders' resources. The justification, as distinct from the need, of this fresh plunge into gilt-edged securities must be that the banks acknowledge both the determination and the technical competence of the authorities firmly to maintain cheap money. So long as that assumption holds good, the risk of capital loss on a gilt-edged portfolio of £1,400 million will not be greater, and may even be less, than it was with a prewar portfolio of one-third that size."[17]

End of Window-Dressing

One of the most interesting postwar developments in Lombard Street has been the end of window-dressing, a practice which British banks have followed at least since the Baring crisis of 1890. The reform was announced in a simple communiqué:

> The Committee of London Clearing Bankers give notice that on and from December 31, 1946, the Monthly Statements of Balances of London Clearing Banks will be aggregated on common dates synchronizing with the weekly Return of the Bank of England and compiled on the third Wednesday in each month, except in the months of June and December when the Statements will be made up as at the 30th and 31st respectively.
>
> They further announce that taking into account the general disposition of Bank assets now ruling it has been agreed in consultation with the Bank of England that the daily ratio of cash balances will be maintained on the basis of 8 per cent.[18]

Thus ended the curious institution that has long attracted comment

[16] *The Economist,* February 10, 1945, pp. 184-85.

[17] *The Economist,* August 31, 1946, p. 342.

[18] "The Truth about Bank Cash," *The Banker,* January 1947, p. 19.

by observers both within and without the country. In elaborating the importance of this reform, *The Banker* expressed itself as follows:

> The ark of the covenant for the banks, with one lofty dissentient in former times, was the 10 per cent cash ratio, classical basis of the 'one-in-ten' principle of credit creation. Nor—paradox within paradox—was its sanctity dimmed by the fact that the cherished figure always was a myth. It had reality in but one of the large banks, and in the others took tangible shape only rarely, and then by accident. Yet it was immutable.
>
> This is the standard by which last month's decision must be measured. To end the rite of window-dressing, the banks have had to recant the primary article of faith that has guided them for half a century. The mystique 10 per cent has been swept away. In future the cash ratio will be 8 per cent; and that will be a real, not a mythical, figure . . . In the past twenty years or so, revolutionary changes have occurred in the shape of the banking system and in the role it plays, but principles and conventions have scarcely altered. Now that the cardinal principle has gone, the others one by one will have to be justified on their merits, and honest criticism will find an audience. It is a heartening thought.[19]

The time chosen for the passing of window-dressing was opportune, since in the late years of the war the degree of window-dressing had reached unprecedented heights. According to *The Banker's* calculations, the excess of the published cash ratio over the true cash ratio fell from 16.7 percent in 1929 to 9.7 percent in 1934, rose again to 12.6 percent in 1937, and contracted to 8.3 percent in 1939; but during the war it rose steadily until it reached 27.6 percent in 1945.[20]

The transition to an 8 percent reserve basis seems to have caused few technical difficulties for the banks. The computed ratio of reserves to deposits in October-November 1946 was 7.75 percent, just under the 8 percent regarded as the figure at which the banks should aim on the average. True, if the calculation is adjusted to exclude the two banks regularly keeping 10 percent, the average for the other banks was around 7 percent for those months; but the additional cash needed by these banks was approximately balanced by the surplus cash of the other two, and much of that surplus was released to the money market on the morning after the new regulation was announced.[21]

The abandonment of window-dressing is an added reason for substituting Treasury bills for Treasury deposit receipts in the short-term borrowing of the Treasury; such a shift would assist the banks in obtaining the precise daily cash adjustments that the new system requires. Also, it becomes more important than before that Treasury bills should

[19] *Ibid.*, p. 13.
[20] *Ibid.*, p. 15.
[21] *Ibid.*, p. 19.

be available which will mature on every day of bank business, account being taken of future Sundays and holidays when the bills are first issued.

Discount Market

For the discount houses, as for the joint stock banks, the first two and one-half postwar years brought a continued expansion of the role of government borrowing in day-to-day activities. The recovery of foreign trade and of domestic acceptance credit was not sufficient to restore the relative importance of commercial paper in discount house portfolios; government finance provided profitable outlets for the funds of the discount market.

The effect of the labor government's cheap money policy on the discount market differed from that on the joint stock banks. The rates at which the discount houses obtained funds, as well as the rates at which they lent them, were reduced. After October 1945 the discount market was able to obtain call money against bills at ½ of 1 percent, compared with the former 1 percent, and advances against bonds at ¾ of 1 percent, compared with the former 1¼ percent from the banks or ⅝ of 1 percent from the outside market. In order to maintain earnings it was necessary only to expand the scale of operations, which the discount houses did cheerfully. Weekly allotments of Treasury bills to the discount market reached unprecedented heights in November 1945, and continued high thereafter.[22] As *The Economist* put it, "At present the discount houses are doing very well out of Mr. Dalton." Operations in the short-term bond market were particularly profitable; in the first months of the cheap money drive, yields on short-term bonds actually rose (Chart 5), which, with the reduced loan rates on bond money, meant that "the handsome margins available . . . through the war period" were "increased at both ends," and "the running profit on bonds" became "very handsome."[23]

This happy state of affairs, however, did not continue. The rise in yields on short-dated bonds resulted from the expectation that some of them would be called for refunding on a lower yield basis. Starting in December 1945, these expectations began to be fulfilled, as the Chancellor called in two short-dated issues for conversion. The strategy employed at that time set the pattern for later conversions. First, the "tap" for 2½ percent National War Bonds of 1954-56 and 3 percent Savings Bonds 1965-75 was turned off. Second, it was announced that

[22] In some weeks, indeed, the allotment was somewhat in excess of the discount market's wishes, since money pressure obliged it to dispose of earlier issues still bearing the higher yield.

[23] *The Economist,* November 3, 1945, p. 649, and November 24, 1945, p. 757.

the 2½ percent Conversion Loan of 1944-49 would be called on April 1, 1946, and the 2½ percent National War Bonds on July 1, 1946; holders were given the option up to February 25 of that year of converting into 1¾ percent Exchequer Bonds of 1950. Third, the limit on holdings of 3 percent Defense Bonds was raised from £1,500 to £2,000. In May 1946, these bonds were replaced by a 2½ percent bond, identical except for a limit on holdings of £2,500. "Unfunding" tactics of this sort were successful in bringing most short-bond yields below 2 percent by the end of the first postwar year,[24] but the rise in yields had, by the end of 1947, restored a 2½ percent rate for short-dated bonds.

As more and more of the outstanding "shorts" come due for conversion, there will be fewer and fewer opportunities for the discount market to maintain its rate of return on investments of this sort. The fact is that the net profits of the "Big Three," which had risen from £628.2 million in 1945 to £830.6 million in 1946, fell to £621.3 million in 1947.[25] The question naturally arises, therefore, as to the likelihood of the discount market achieving greater independence of government finance in the future.

It does not seem very probable that the 1913 volume of foreign bills will be restored in the London discount market. Foreign trade may well revive, but over the near future both international investment and the financing of foreign trade may involve a larger measure of government participation, including government bulk purchases, exchange control, and government international lending. The more rapid turnover of foreign trade will tend to reduce the average term of acceptance credit and thus its total volume. The role of private enterprise in continental finance has been greatly curtailed and its future is uncertain at best. Likewise, it hardly seems possible that London's share in financing the world's international trade and investment will be greater than it was before the war. The trend of international finance toward New York and Washington was accelerated by the war; Canada and the other Dominions have outgrown much of their former financial dependence upon Britain; Britain has lost a large share of her foreign assets, while acquiring substantial foreign debts; Switzerland has emerged as a rival in the financing of continental commerce and industry.[26]

[24] See "Cheap Money and Unfunding," *The Economist,* September 7, 1946, pp. 382-84, and "Gilt-Edged Yield Comparisons," *The Economist,* October 26, 1946, p. 679.

[25] *The Banker,* February 1948, p. 119.

[26] These matters are discussed more fully in Chapter 5 above. See also "London or New York—World Money Market," *The Statist* (British Banking Section), July 20, 1946, pp. 3-6.

Domestic bills may receive more attention than before the war because of these factors, but it is unlikely that they can play a prominent enough part in themselves to keep the discount houses alive. Much depends, too, on the willingness of the joint stock banks to leave this field open to specialists. Certainly, if the role of the discount houses is to be reduced to one of government finance, the need for specialized institutions to deal in bills is much less apparent. It requires little special knowledge to judge the acceptability of Treasury bills.

No doubt, the discount houses will continue to operate in their traditional sphere, and in new ones as well. Not only are these institutions essential to the smooth operation of the British money market as now constituted, but also, through experience extending over several generations, they have built up a knowledge and prestige in the field of international finance, together with an acquaintance with the organization and personnel of foreign financial centers, that British authorities consider precious. In view of Britain's professed desire to recapture her position as a leading lender and trader, she is naturally reluctant to see these venerable institutions replaced by untried organizations.

Judging from the capital expansion of the discount market in the first postwar year, both the discount houses themselves and the Capital Issues Committee took a favorable view of the future of the discount market. In January 1946, Cater Brightwen and Company, fourth largest of the discount houses, undertook an expansion; Alexanders followed suit shortly thereafter; and somewhat later Smith St. Aubyn, Jessel Toynbee, and others did likewise. By the spring of 1947, the number of houses was one-third lower than in prewar years, but the aggregate resources of the discount market were 70 percent higher than prewar.[27]

This optimism may prove well founded; but even if it does, the activities of the discount market will be very different from what they were in 1913. In the next few years at least, the market's major operations will not be in private bills but in short-term government bonds. Since the discount houses are professional dealers for tax purposes, they can charge the amortization of premiums on bond purchases against profits when calculating their tax liability. Consequently, they can bid higher than nonprofessional investors for short bonds, relieving institutional holders of bonds as they approach maturity and keeping them until they can be turned over to the government authorities. Thus the discount market "is both qualitatively and quantitatively a more important unit in the financial structure than it has been for many

[27] W. T. C. King, "The Changing Discount Market," *The Banker,* March 1947, p. 185.

years." But "it is a new Lombard Street, which serves above all the needs of a Treasury wedded to cheap money."[28]

W. T. C. King also stressed the change in the discount market:

> Although the whole mechanism of Lombard Street has been enlarged, the purpose of this inflow of capital is to expand, not the discount mechanism, but the new mechanism in the short bond market which the discount houses have grafted on to their traditional bill-dealing apparatus. Lombard Street, which in the pre-war decade often found cause to wonder whether it was doomed to eventual extinction, has during the war acquired a new and important function, the function of making and smoothing the market in a huge block of short-term Government securities.[29]

By the end of 1945, he pointed out, the "Big Three" companies were financing a bill-and-bond portfolio twice as large in relation to their resources as before the war.

These are the facts that induced Professor D. H. Robertson to ask, in an after-dinner address to the Lombard Association in London,

> And what about your esteemed satellites, the bill-brokers? Will they ever be called on to do an honest day's work again, distinguishing by smell and touch a good trade bill from a bad one? Or are they, too, doomed to remain for evermore an all but functionless appendage of the Exchequer, never handling any two objects more different than the Chancellor's promise to pay in three months and the same gentleman's promise to pay in twelve? It seems a dull end to a long and not inglorious history.[30]

Merchant Banks

The composition of assets of the merchant banks is even less likely to assume the pattern of 1913, since the granting of international acceptance credit will probably not recapture its prominent position in merchant bank activities, and the merchant banks have no special competitive advantage in the short-term market for domestic credit. Government financing and long-term financing of trade and commerce appear to be the two main areas of possible expansion.

One line of development is suggested by the activities of Hambros Bank. As reported in *The Statist,* Hambros Bank "was faced with the likelihood that a quick postwar resumption of acceptance business was hardly possible, and therefore prepared to participate in Anglo-United States trade on a basis more intimate than is usual for banks."[31] This "departure" was followed by another: the granting of £1 million of

[28] *The Economist,* February 15, 1947, p. 292.

[29] *Ibid.,* p. 171.

[30] D. H. Robertson, "Is There a Future for Banking?" *The Banker,* November 1946.

[31] *The Statist,* March 30, 1946, p. 268. Cf. also *The Economist,* March 30, 1946, p. 503.

commercial acceptance credit to nationalized industries in Czechoslovakia, for imports of raw materials from the sterling area. The loans presumably are to be liquidated ultimately by Czechoslovakian exports to the United Kingdom and other countries, and are renewable year by year. The credits were arranged through leading Czech banks (also nationalized) and were guaranteed by the National Bank of Czechoslovakia. This credit is quite different from the acceptance of ordinary trade paper representing transactions already undertaken. The Czech importing firms will draw on Hambros Bank, and the resultant bills will be discounted in the London market. *The Statist* added, "It is natural to hope that this credit may prove to be the prototype of many others granted by our merchant banks, but the number of directions in which substantial credit risks on private account may at present be safely undertaken is still very limited." *The Economist* also notes "significant credit lines . . . in other directions," notably with Scandinavia, and hopes that "Hambros' action will serve *pour encourager les autres.*" The new departures seem to have been profitable for Hambros; foreign acceptances increased during 1946 from £2.5 to £6.9 million, while holdings of cash, Treasury bills, and government stocks also rose. So pleased was the bank with its expansion that it called for new capital in May 1947.[32]

There have been numerous suggestions that the merchant banks may expand their investment banking activities.[33] The composition of the Issuing Houses Association, organized since the war, lends support to this view. This new body has the same chairman, secretary, and office address as the old Accepting Houses Association. Of the twenty-four members of the new body, seventeen are members of the old. *The Economist* explained the establishment of the new association, when the Accepting Houses Association already provided a means for coordinating operations of the merchant banks, in terms of the decline of acceptance business and of overseas lending, and of the increasing share of domestic long-term finance in the business of the older merchant banks.

Capital Market

With regard to the capital market, the legislation of the labor government has done little more than carry out the promises of its predecessor to continue wartime regulations. The Investment (Control and Guaranties) Act of 1946 retained wartime controls of the capital market, and provided for a Treasury guarantee of industrial loans up to £50

[32] *The Economist,* May 24, 1947, p. 819.
[33] See, for example, "The Merchant Banks," *The Economist,* Banking Supplement, October 28, 1944, pp. 1 and 2.

million per year.[34] The act was not considered startling in financial circles. Indeed *The Economist* criticized it for its conservatism: "The Investment Bill seeks to perpetuate existing methods of control, and is at least as solicitous about established industries as it is about the development of new ones. It exhibits in almost every line Treasury habits of thought, and Treasury conceptions of control, rather than the views of progressive economists and enterprising industrialists."[35]

Even these controls were relaxed somewhat in May 1947. Wholly unsecured and stock market loans repayable in six months were exempted from regulation, and Treasury permission for new issues of stocks and shares was limited to offers by "bodies which have, within two years of the offer, made any issue under one or other of the exemptions conferred by the Capital Issues Exemptions Orders."[36]

The end of the war and the election of the labor government caused a temporary recession of the stock market, but during 1946 the market was buoyant, and the average price for industrials in August 1946 was considerably above that of August 1945. The first budget of the new government was enthusiastically received in Lombard Street. The reduction in the excess profits tax, the relief from taxation of expenditures on research, the increase in tax allowances for obsolescence and for investment in parts and equipment, were probably responsible for this attitude. Even the difficulties of the first six months of 1947 failed to produce a lasting downward revision of share prices. The *Financial Times* index shows a break in prices of ordinary shares early in the year, followed by almost complete recovery. Although the dollar crisis of August was accompanied by a sharp decline on the London stock exchange, recovery set in quickly, and continued throughout the rest of the year, despite the doubling of profits taxes in November. The grim picture painted by the *Economic Survey for 1948,* however, was quite understandably reflected in a break of security prices. Less understandable was the recovery after the "deflationary budget" for 1949 was announced; the "Special Contribution" from investment income was one of its main features; and the budget did little to offset the impact of this feature on the outlook for shareholders except to confirm expectations that it would include no further increase in profits taxes and would impose no formal limitations on dividends, in view of the Federated British Industries' proposal for voluntary dividend limitations.

[34] A "National Investment Council" has taken over the work of the Capital Issues Committee and the Public Works Loan Board, and has continued to reserve access to the new issue market for those industries considered most essential, with national development and reconversion in mind instead of prosecution of war.

[35] *The Economist,* January 26, 1946, p. 124.

[36] *The Economist,* May 31, 1947, p. 867.

The vitality of the capital market is also illustrated by new capital issues, which in 1947 amounted to £151.1 million; £117.6 million were United Kingdom issues and £33.5 million for overseas. These figures may be compared with £17.0 million and £3.5 million for United Kingdom and foreign issues, respectively, in 1945. Although the share of home issues in the total has shown some fluctuation since the end of the war, it has continued to be the largest, with the public particularly receptive to industrials; new issues of this type have for the most part been greatly oversubscribed.

Finance Corporation for Industry

During the first postwar year, the new finance corporations made only insignificant inroads into the capital market. The first annual report of the Finance Corporation for Industry was submitted in May 1946, and covered the first ten months of operations, ending March 31, 1946. As the Chairman pointed out in his accompanying statement "it was naturally some months before the organization of the Corporation was completed and its first loans arranged," and the report is of limited value as an indication of the probable effect of the Corporation on the British capital market. Organization costs ate up £126,008 of the initial £500,000 of called-up share capital, £125,000 of which went for stamp duties.[37] The Corporation also suffered an operating loss of £16,085. It had made advances of only £254,500.

The Corporation was a good deal more active during its second year. Total loans outstanding on March 31, 1947 amounted to £1,862,051. One of the larger items in this total was a loan of £210,600 to a concern for which the Corporation was later appointed a receiver, and to which it later extended further accommodation. The FCI's losses were reduced to £9,142 for fiscal 1947. Its commitments for the fiscal year 1948, however, far exceeded its earlier activities; one loan alone, to the Steel Company of Wales, amounted to £35,000,000.[38]

Industrial and Commercial Finance Corporation

The first report of the Industrial and Commercial Finance Corporation covered the period July 20, 1945, when it was incorporated, to September 30, 1946. Its preliminary expenses were somewhat less than those of the Finance Corporation for Industry (£76,300, of which £75,000 went for stamp duties), but its operating losses were larger (£29,175). Loans actually disbursed in the period amounted to a little less than £1,250,000, but commitments had been made for £1,600,000. In

[37] England has a high and progressive stamp tax on legal documents, including marketable securities. (Cf. 53 and 54 Victoria C. 39 and amendments.)

[38] *The Economist*, August 2, 1947, p. 213.

addition, "£2.4 million was in process of completion, while £1 million was in a slightly earlier stage of tying up."

The range of actual and prospective borrowers was very wide, with no marked concentration in any single industrial category, although mechanical engineering trades as a group took one-quarter of the total.[39] Analysis of a sample of £7,000,000, including excess profits tax refunds and new capital supplied from other sources, as well as I. C. F. C. advances, showed that £4,250,000 was for fixed assets, and £2,750,000 for working capital. Half the number of loans made was for relatively small amounts, £5,000 to £20,000; less than 10 percent was for more than £100,000. The interest rates were described by the Chairman in his statement as "the lowest . . . which are commercially possible, . . . normally from 4 percent to 5 percent" when loans are made for medium or long term and on good security.

In presenting the report, the Chairman made several interesting observations on the relation of the Industrial and Commercial Finance Corporation to the capital market as a whole.

> Our function is not new. It is the supply of capital to concerns which find it necessary to raise capital for development from outside sources, concerns, more precisely, whose requirements fall within the limits of £5,000 and £200,000. Our customers are mainly private Limited Companies engaged in manufacture, but we do not exclude any type of business, industrial or commercial, from our scope, nor, of course, do we restrict our facilities to private Limited Companies. At 30th September we had examined 840 applications having definite outline; and of 703 conclusively dealt with, we had been able to grant facilities in 133 cases, or about 20 percent.
>
> Bank accommodation is complementary to the class of facilities we offer, which is of the nature of a long-term, or maybe a permanent, addition to the customer's capital resources. In general, the facilities extended by us make the customer a better customer for the Bank. In a sample of 89 cases of a straightforward kind, customers who had enjoyed previously overdraft limits aggregating £1,900,000 were granted new limits aggregating £2,890,000, based on their now increased resources. There are cases, on the other hand, where Banks have provided exceptional facilities on a temporary basis, and here what is required is a reduction of limit. In three such cases which I have in mind, overdrafts amounting roughly to £627,000 were brought down to new limits aggregating £495,000. I do not stress these figures, which are based upon an experience not yet very wide. They serve, however, to illustrate the complementary character of our facilities and those of the Banks, and the advantage of this to eligible customers.

Like the FCI, the ICFC expanded its activities during its second

[39] Includes producers of agricultural machinery, machine tools, prime movers, printing and paper-making machinery, textile machinery, cooking, heating and ventilation machinery, and "all other machinery."

fiscal year. By September 31, 1947, it had approved proposals amounting to £10,501,000, of which £5,716,000 had been taken up. However, there was some question as to whether this expansion represented the kind of financing for which the Corporation was organized. Less than 12 percent of the number and 5 percent of the amount of all loans made in the Corporation's second fiscal year were for amounts between £5,000 and £10,000. Moreover, loans of amounts exceeding £100,000 rose during the year from 7 to 22 percent of the number, and from 28 to 56½ percent of the amount, of all loans made.

Outlook for Lombard Street as a Whole

This essay has stressed the close relationship of the prosperity of Lombard Street to the prosperity of the British economy as a whole, and especially to British foreign trade and finance. If Britain ultimately achieves her stated objective of expanding physical exports to a volume of 75 percent above the prewar level, and consequently solves her balance of payments problem without restricting the ratio of imports to national income below the prewar level, Lombard Street will prosper along with the rest of the British economy.

Exports

At time of writing, the outlook for the achievement of Britain's objectives in international trade is very dim. Early optimism has been dispelled by the fuel crisis, growing competition in export markets, labor difficulties, the burden of overseas military obligations, and rising American prices. During the first postwar year, British exports showed a rapid recovery. By the second quarter of 1946, the value of exports of British manufactured goods was three and one-half times the quarterly average of 1943, and the value of total exports was back to the 1938 level. In May 1946, employment in manufacturing for export was 30 percent above the prewar level, and so cautious an economist as R. G. D. Allen felt safe in predicting that an increase in exports of 50 percent would be achieved by the end of 1946, and that the full 75 percent increase would be reached by the spring of 1947.[40] For 1946 as a whole, the physical volume of exports was approximately at the 1938 level, exports of manufactured goods rose more than 10 percent, while imports were held to 69 percent of the 1938 volume.

The early success in increasing exports was based largely on unusually heavy demands from devastated countries, where keen international

[40] R. G. D. Allen, "A Year of Reconversion," Royal Economic Society, *Memorandum No. 107*, pp. 9-10.

competition for markets had not yet developed. By the spring of 1947, this advantageous situation was rapidly disappearing. The President of the Board of Trade, Sir Stafford Cripps, stated in June 1947, "From everywhere we receive the warning that the sellers' market is disappearing—it has already disappeared as far as some commodities are concerned—and we are right on the verge of a period when we shall have to rely not only on the quantity and quality of our production, but also upon the power of our salesmanship."[41]

The fuel and transport crisis arising out of the adverse weather conditions of early 1947 not only interrupted the expansion of exports but led to an absolute decline. The index of volume of exports fell from 110.8 (1938 = 100) for the last quarter of 1946 to 100.5 in the first quarter of 1947. Despite rapid recovery in the second half of the year, the volume of exports for 1947 as a whole was only 8 percent above the 1938 level. The critical situation, together with rising American prices, also necessitated an unplanned increase in the value of imports. The original program laid down in the *Economic Survey for 1947*[42] called for imports in 1947 of £1,450 million (exclusive of films), which was already £350 million above 1946; but the revised estimates for mid-1947 to mid-1948 were £235 million higher still. Even this expansion would not have provided any improvement in the British standard of living. In volume, imports would have been only 80 percent of prewar imports, and a large share would have had to be reserved for incorporation into exports. At time of writing, however, even this modest import target had been abandoned and new restrictions on imports had been imposed. Actual imports for 1947 were £1,574 million, equivalent in volume terms to 77 percent of the 1938 level.[43]

While the reverses of early 1947 constituted a serious setback to British plans for increasing exports, these reverses do not weigh heavily in an assessment of long-run prospects. The outcome of the export drive will depend ultimately upon the ability of the government, in cooperation with employers and workers, to reduce costs in the export industries. Professor MacDougall has demonstrated in convincing fashion that achievement of the export target will require foreign sales of British manufactures *double* the prewar level; and that since world trade in manufacturers is unlikely to reach a volume twice as high as before the war, this requirement really means that Britain must enlarge her share of the world market in manufactures.[44] In other words, Britain must

[41] Quoted in *The Economist,* June 28, 1947, p. 1036.

[42] Cmd. 7046 (London, February 21, 1947).

[43] *Economic Survey for 1948,* Cmd. 7344 (London, March 1948).

[44] G. D. A. MacDougall, "Britain's Foreign Trade Problem," *The Economic Journal,* Vol. LVII, March 1947, especially pp. 91-110.

outsell her competitors, especially the United States; and the only way to do this and to raise the British standard of living at the same time is to increase the productivity of the British economy.[45]

The disparity in productivity between British and American industry appeared long before the war, and became increasingly obvious during it.[46] Early in 1944, a Cotton Textile Mission was sent to the United States to study differences in British and American productivity in that industry. In its Report,[47] the Mission stated that with normal staffing British production per man-hour was below American by 18 to 49 percent in spinning, by 80 to 85 percent in winding, by 79 to 89 percent in beaming, and by 56 to 67 percent in weaving. The Mission found a variety of factors in the American industry to account for these disturbing disparities: high-draft, high-speed, automatic machinery; up-to-date plant; scientific methods of labor-utilization; concentration on high operative efficiency rather than on high machine efficiency; lower age of operatives; integration of industry; continuous, standardized production; lack of long-standing conventions in the methods of labor utilization; and the fact that "American mill managers, generally, are young and analytical and progressive in their outlook."

It is not unreasonable to suppose that similar conditions affect other industries where British efficiency falls far below American.[48] In any case, the broad lines of policy adopted by the government have been the same for other industries as for cotton, except for coal and transportation, which are being nationalized. In October 1945, the Board of Trade set up a "Working Party" consisting of four employer representatives, four trade union representatives, four independent members, and a Chairman appointed by the Board of Trade; the employer and worker representatives were selected by the Board from panels nominated by the associations and unions. This Working Party studied the deficiencies of the cotton industry and considered such remedies as re-equipment of the mills, double-shifts, amalgamations and "nationalization," integration, and joint consultation in the industry. It presented its report in May 1946, and recommended a compre-

45 Cf. Alfred E. Kahn, "The British Balance of Payments and Problems of Domestic Policy," *The Quarterly Journal of Economics,* Vol. LXI, May 1947, especially pp. 372-74.

46 Cf. P. S. Brown, "Prospective National Income and Capital Formation in the United Kingdom," *The American Economic Review,* Vol. XXXVI, No. 4, Part 1, p. 555.

47 *Report of the Cotton Textile Mission to the U.S.A. March-April 1944* (commonly known as the "Platt Report," London, 1944).

48 The Reid Committee Report (Cmd. 6610, March 1945) on the coal industry showed British coal output per man-shift to be lower than in Poland, Holland, and the Ruhr, and far below the United States.

hensive survey of existing plant and its suitability for modernization, group operation of mills, new loan facilities, and the building up of a fund to aid re-equipment from a levy on yarn offset by a higher controlled price. The government accepted these recommendations in general and offered grants of 25 percent of the cost of re-equipment of machinery. Fourteen similar working parties have been established in other industries, and have since published Reports. The Industrial Organization Act of 1947 is in large measure a response to the proposals in these Reports. The Act provides for the establishment of Development Councils, with representatives of employers, workers, and experts, in industries operated by private enterprise. These Councils will endeavor to raise productivity by improving equipment and layout, introducing incentive schemes, etc.[49]

Shipping

It is not yet certain that Britain will recapture her position as the world's leading merchant shipper. Construction of merchant shipping, both in terms of tonnage completed and tonnage laid down, averaged little more in 1946 than in 1945, and was well below the wartime peak of 1942. In 1947, there was some expansion. The tonnage launched was greater than in any year since 1930, except for 1942. American production fell in 1947, and British tonnage launched was 57 percent of the world total (excluding Russia, Germany, and Japan), which compares with 58 percent in 1913. Nevertheless, the tonnage registered under the British flag was less in 1947 than in 1939, and the quality was much inferior.

Given a sufficient volume of world trade, Britain might find profitable use for a merchant fleet even larger than her prewar fleet. The American fleet, however, may remain greater than the British, whatever the ultimate development of trade. As indicated in Table 15, the U. S. Maritime Commission planned a postwar merchant fleet nearly 50 percent above that of prewar years, with the greater part of it assigned to the trans-Atlantic and trans-Pacific runs. Canada's merchant fleet, in all likelihood, will also remain above the prewar level, and Norway, France, Belgium, and Holland plan to regain their prewar positions as shippers. All told, it seems quite probable that Britain will suffer a

[49] Cf. United Kingdom Information Office, *Monthly Commentary,* June 1, 1946, p. 4; "Plan for Cotton," *Labour and Industry in Britain,* Vol. V, No. 1, January 1947; and "Efficiency in Privately-Owned Industry," *ibid.,* No. 4, April 1947; "Productivity in Britain," *ibid.,* Vol. VI, No. 1, March 1948.

relative loss in world shipping, and in the world insurance and finance that goes with it.

Table 15—ESTIMATES OF DRY-CARGO TONNAGE USED BY UNITED STATES MERCHANT FLEET, 1939, AND SUGGESTED REQUIREMENTS FOR POSTWAR TRADE[a]

	Dry-Cargo Tonnage Used June 30, 1939		Maritime Commission's Suggestion for Postwar Trade	
	No. of Vessels	Gross Tons	No. of Vessels	Gross Tons
Atlantic	83	528,840	118	770,220
Mediterranean	29	172,485	20	135,432
Caribbean	67	353,046	81	323,334
African	13	81,747	21	135,762
South American	43	302,903	55	453,288
Pacific	24	199,666	93	704,418
Round the world	12	102,124	7	46,200
TOTAL	271	1,740,811	395	2,568,654

[a] From *Foreign Commerce Weekly,* February 23, 1946, p. 6. It should be noted that these figures exclude tankers, harbor craft, river craft, and lake shipping.

Insurance

Rebuilding the British insurance business will be no easy task. In the first place, the British companies must make an almost completely fresh start. In the second place, they face competition from American concerns eager to expand into fresh fields. In the third place, much of the businesses, property, and shipping upon which the insurance business was based has been destroyed, and it will not be quickly restored. In Germany and Japan, and in the areas closely tied to them economically, private enterprise of the prewar type is not likely to be restored for a very considerable period. In the fourth place, there is, in some countries at least, the possibility that as the insurance business is restored it will be nationalized. Even where actual nationalization does not take place, present indications are that government policy abroad will discourage foreign insurance through such devices as discriminatory taxation, "reinsurance banks" with partial or complete monopolies of reinsurance business, requirements of unduly onerous deposits for foreign concerns, and so forth.[50]

The companies themselves are well aware of the complexity of their situation, and have taken steps to deal with it. Missions have been sent to Belgium, Denmark, France, and Greece to survey the field, ascertain the extent of the market, and "recreate goodwill." An advisory committee representing Lloyd's and the other companies has been set up at the request of the Board of Trade to deal with overseas business.

Britain as a Creditor Nation

In 1946, Britain still had a net credit balance of current income from foreign capital, amounting to £60 million. In 1947, it had shrunk to £51 million, and there is no assurance that Britain will remain a "creditor nation" even in this restricted sense. Indeed, the chances are that Britain's capital position will be worse before it is better.

The statistical White Paper (Cmd. 6707) supporting the request for an American loan estimated the deficit in Britain's balance of payments in 1946 at £750 million; a deficit of £500 million was anticipated for 1947-48; a "slight" deficit was expected in 1949 or 1950; and it was hoped that in 1951 equilibrium on current account would be achieved. The 1946 estimate proved unduly pessimistic; "the export drive developed faster than had been expected,"[51] and the actual deficit was around £450 million. It was met in large part by drawing £150 million on the U. S. credits and £130 million on the Canadian. The reverses of the winter and spring of 1947, however, led to much higher deficits than had been anticipated for that period. As shown in Table 16, drawings on U. S. credit, and disbursements out of U. S. and Canadian credits, were very much higher in the first half of 1947 than they were in the second half of 1946. Nevertheless, the British government

[50] In a presidential address to the Insurance Institute of London, C. H. Leach said in 1946, "It is not an exaggeration to say that scarcely a week passes in which consideration has not to be given to legislative problems from some parts of the world—threats of restrictive decrees, Government monopolies, State control, increased and discriminatory taxation." (Reported in *The Banker,* December 1946, p. 160.) A correspondent to *The Banker* went on to say, "Company reports show, however, how successfully the companies' representatives have safeguarded British insurance interests in enemy and enemy-occupied countries during the war years, and how speedily business has been resumed in many of the countries that were over-run by the enemy. In Central and Southern Europe, of course, resumption depends upon the solution of complex political questions and economic restoration. Elsewhere, too, financial and economic problems have in many instances hampered the full and free resumption of operations. But it is widely appreciated that the delicate fabric of international trade can be restored only with the help of the protection provided by insurance facilities, and, despite perplexing problems, the re-establishment of British insurance overseas is being actively pursued."

[51] Cmd. 7046, *op. cit.*

proceeded with negotiations for liquidation of sterling balances, and on July 15 restored convertibility for current transactions, in accordance with Article 10 of the "Financial Agreement between the Governments of the United States and the United Kingdom of 6 December 1945." The result was an unprecedented rate of withdrawals on U. S. credit in July and August. Import restrictions introduced early in August had a negligible effect. In the week of August 18 alone, withdrawals amounted to $237 million, leaving only $400 million of the initial $3,750 million U. S. credit.[52] On August 20 convertibility was restricted again, the loan was temporarily "frozen," and a new period of Anglo-American financial negotiations began.[53] At the end of 1947, gold and dollar reserves were down to £680 million, which was not expected to last much beyond the end of 1948.[54]

Table 16—DRAWINGS ON U. S. CREDIT AND NET SPENDINGS FROM U. S. AND CANADIAN CREDITS[a]
(in millions)

Period	Drawings on U. S. Credit	Net Spendings from U. S. and Canadian Credits
1946		
Third quarter	$400	$210
Fourth quarter	200	369
1947		
January	200	137
February	100	224
March	200	323
April	450	307
May	200	334
June	300	308
July	700	538
Total through July	2,750	2,750
August 1-20	600	....
Total through August 20	3,350	....

[a] Based on *The Economist,* August 16, 1947 and *Monthly Letter of the National City Bank of New York,* September 1947.

[52] *Monthly Letter of the National City Bank of New York,* September 1947, p. 99.

[53] In an interesting analysis of the causes of this breakdown, *The Economist* (August 30, 1947, p. 350) showed that the major item in the deterioration of Britain's balance of payments position since 1938 was the huge increase in government overseas expenditures for military and political purposes. World inflation, and the fact that British import prices rose more than export prices, were the next most serious factors. The physical balance of trade was considerably better after the war than it was in 1938 and, except for reduced income from foreign investment, the decline in invisible income was of relatively little importance.

[54] *Economic Survey for 1948, op. cit.,* p. 15.

Britain's Bargaining Position

Britain's bargaining power in world trade and financial negotiations leans heavily upon her self-styled position as "the world's best customer."[55] The argument is a simple one: "Not only is the volume of British purchases higher than that of any other country and, on the whole, more stable; it also consists more largely of those staple primary products that other countries are usually most anxious to sell abroad." Britain "is willing to continue to play this role," but "what is bought must be paid for" and Britain "having spent in the common cause a higher proportion of her substance will have to pay for nearly all her future purchases with exports of her own goods." Accordingly Britain "is preparing to make a great effort to supply the manufactures and the services the world wants": she prefers a system of multilateral trading, but "it is for other countries to say whether they too will cooperate in bringing into existence the conditions in which Britain can continue to be the World's Best Customer."[56]

There are, however, a few weaknesses in this argument. In the first place, it is not at all certain that what the rest of the world wants is a return to the 1913 kind of trade organization, in which Britain exported manufactured goods in exchange for primary products. Two major wars in one generation have greatly accelerated the industrialization of the nations with which Britain trades, and many of these countries are now at least as anxious to export manufactured goods and import primary products and services as to export primary products and services and import manufactures. In the second place, Britain can hope to obtain markets for her manufactures only if she can produce them more cheaply than other countries.

Finally, there is some doubt as to the strength of Britain's position as "the world's best customer." It is true that in 1938 Britain absorbed more imports than any other country—one-fifth of the world's exports. But when these imports are broken down,[57] it is at least questionable whether this fact will be enough to persuade the world to take British exports in preference to cheaper goods and services from other countries. The countries selling more than 20 percent of their exports to Britain were for the most part not countries to which Britain in turn sent anything like an equal share of her total exports. Indeed, two-fifths of total British exports in 1938 went to countries selling one-fifth and less

[55] United Kingdom Ministry of Information, *Great Britain—the World's Best Customer* (London, 1945).

[56] *Ibid.*, p. 5.

[57] As has been done, for example, by G. D. A. MacDougall in "Britain's Bargaining Power," *Economic Journal*, Vol. LVI, March 1946, p. 301.

of their exports to Britain.[58] Also, the United States was not far behind Britain as an importer before the war; as Professor MacDougall put it, "If ever we [British] are tempted to use our bargaining power as a large importer to force other countries to take our exports, we would do well to remember that at least one-third of our exports went to countries which depended more on the United States market than on our own."[59]

General Conclusions

Britain's share of the world's financial business is not likely to be so great in the future as it was before World War I. The Bretton Woods agreements themselves give evidence of how little of London's position as a banking center has survived the two World Wars. Basic reserves are gold and American dollars; par values are expressed in gold and American dollars; voting power is determined by the American dollar value of quotas; both the International Monetary Fund and the International Bank for Reconstruction and Development are located in Washington, not London; and both organizations will involve supervision of foreign exchange rates and capital movements by an international organization, not by Lombard Street.

As stated in Chapter 1, one source of Lombard Street's income in the past was the financing of trade between countries far removed from Britain. That type of credit is incompatible with bilateral agreements and the controls of exchange and trade that developed during the war and interwar periods. Its restoration depends upon the relaxation of such controls. In addition, the growth of banking facilities in other trading countries restricts this kind of credit.

Britain's own trade policy must depend considerably upon measures adopted by other countries, particularly the United States. Britain naturally wants stable foreign exchange rates, and is determined that the pound shall be established at a level that does not overvalue it. Whatever its relative importance may have been, overvaluation of the pound was given considerable emphasis in the discussion of Britain's difficulties after 1925, and the error of overvaluation is not likely to be consciously repeated. There is no question this time of pursuing a deflationary internal policy in order to support an overvalued pound. Some persons feel that in order to guarantee an adequate volume of exports, a rate even lower than the present $4.03 must be established; others, attaching as much importance to the *terms* as to the *volume* of trade, have expressed a fear that the pound may be set too low. Determination of the most appropriate exchange rate will require concepts

58 *Ibid.*, p. 31.

59 "Britain's Foreign Trade Problem," *op. cit.*, p. 100.

of equilibrium, and techniques for estimating its position, more refined than the "purchasing power parity equation" in vogue after the last war.[60]

The widest difference of opinion, both within the government and outside, appears in regard to the organization of postwar international trade. On one point only is there complete unanimity: no form of organization which threatens full employment will be acceptable.[61] But whether full employment can best be achieved through "omnilateral" trade, through a sterling bloc that would restrict trade with nonsterling countries, or through imperial preference, is still a controversial question.

Much of the free trade tradition remains in Britain. It grew up at a time when Britain, as the leading industrial nation, had a strong bargaining position in buying raw materials and in selling finished goods, and therefore had everything to gain by free access to world markets. British bargaining power may be weaker today than it was before the last war, but it is still strong enough to make the people keenly aware of the advantages of geographic specialization.[62] However, there are grave doubts in Britain as to whether economic policies of other countries will permit a return to free trade policy.

Britain's balance of payments does depend to a considerable extent upon American commercial and employment policies. American imports vary closely with the level of American income, and accordingly the magnitude of the gap in the British balance of payments tends to vary inversely with the level of American income. However, experience after World War I suggests that the level of prices as well as the level of income in the United States is important to the balance of payments. A high, or even rising, national income might not eliminate the balance of payments problem for Britain (and other countries dependent on exports) if accompanied by a slow decline in the American price level, and consequent deterioration of Britain's competitive position in world export markets. On the other hand, price inflation in the United States complicates the British situation by raising raw material and food prices both in the United States itself and in other countries. The only complex of American developments that would make the British

[60] Cf. MacDougall, "Britain's Foreign Trade Problem," *op. cit.*, pp. 103-109.

[61] Even so conservative a journal as *The Banker,* while supporting the proposed International Monetary Fund, added that "All these advantages [of the Fund] would admittedly count for very little if they could only be bought at the cost of restraints on our internal freedom of action that would interfere with a policy of full employment" (June 1944, p. 125).

[62] MacDougall estimates that resort to bilateralism would reduce world trade by some 25 percent. ("Britain's Foreign Trade Problem," *op. cit.,* p. 86.)

feel completely safe in embarking on a course of unrestricted "omnilateralism" would be one that maintained a high level of economic activity, with an expanding national income, a reasonably stable price level, and a willingness to promote an import surplus as soon as the time comes for net repayment of American loans. Because the British appear not to expect conditions in the United States to be of the kind necessary for successful "omnilateral" trade, a degree of restriction seems inevitable for some time to come.

The British viewpoint on the necessity for United States recognition of the full weight of its responsibility in determining conditions of world trade is a defensible one. It would surely be unfortunate for both countries if economic disturbances in the United States compelled the British (and the rest of whatever "sterling bloc" ultimately materializes) to continue restrictions against American exports.

Britain's financial outlook is not altogether black. The demand for goods in general may continue high throughout the world. Unless the world degenerates to protectionism and bilateralism in the field of international trade, or suffers another major depression, there will still be a substantial volume of world finance to be handled by Lombard Street.

What Britain needs to attain her stated economic goals of full employment and a rising standard of living is not a restoration of her former *pre-eminence* in international trade, shipping, and finance, but only an adequate increase in *total sales of British goods and services.* Other countries may surpass Britain as exporters of industrial products; other nations may help Britannia rule the waves; other agencies may supersede Lombard Street as the world's bankers. But if Britain narrows the gap between American productivity and her own, and if expansionist policies succeed in bringing the *total volume* of world trade, shipping, and finance to an optimum level, the British economy — including Lombard Street—can still prosper.

Table A—BANK OF ENGLAND RETURN[a] (in millions)

Item	Dec. 31, 1913	July 29, 1914	Nov. 27, 1918	Aug. 30, 1939	Aug. 29, 1945	Sept. 3, 1947
			Issue Department			
Liabilities						
Notes issued:						
In circulation	....	....	....	£529.50	£1,325.91	£1,392.41
In banking department	£52.32	£55.12	£93.71	33.51	24.33	57.83
TOTAL[b]	52.32	55.12	93.71	563.01	1,350.25	1,450.25
Assets						
Government debt	11.02	11.02	11.02	11.02	11.02	11.02
Other securities	7.43	7.43	7.43	3.47	.64	.64
Other government securities	....	....	....	284.80	1,338.33	1,438.34
Silver coin	....	....	....	.71	.01	.01
Gold coin and bullion	33.87[c]	36.67[c]	75.26[c]	263.01[d]	.25[e]	.25[e]
TOTAL[b]	52.32	55.12	93.71	563.01	1,350.25	1,450.25
			Banking Department			
Liabilities						
Proprietors' capital	14.55	14.55	14.55	14.55	14.55	14.55
Rest	3.25	3.49	3.19	3.65	3.46	3.92
Public deposits[f]	10.26	12.71	30.43	31.07	16.04	12.49
Other deposits						
Bankers	....	....	....	90.14	238.17	292.30
Other accounts	61.09	54.42	143.75	38.98	54.99	94.27
Seven-day and other bills	.01	.01	.01	....	....	....
TOTAL[b]	89.16	85.19	191.93	178.39	327.21	417.54
Assets						
Government securities	13.20	11.01	62.63	113.13	272.11	319.37
Other securities						
Discounts and advances	....	....	....	6.39	7.18	19.89
Securities	52.14	47.31	100.99	24.63	23.16	17.91
Notes	22.72	25.42	27.72	33.51	24.33	57.83
Gold and silver coin	1.11	1.46	.59	.74	.43	2.54
TOTAL[b]	89.16	85.19	191.93	178.39	327.21	417.54

[a] From *The Economist,* January 3, 1914, p. 33; August 1, 1914, p. 249; November 30, 1918, p. 753; September 2, 1939, p. 468; September 1, 1945, p. 316; January 4, 1947, p. 46; September 6, 1947, p. 193.
[b] In some cases totals do not agree with the sums of the items because of rounding.
[c] At 85s. per oz. fine.
[d] At 158s. 6d. per oz. fine.
[e] At 172s. 3d. per oz. fine.
[f] Including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts.

Table B—Selected Balance Sheet Items for Joint Stock Banks of England and Wales[a]
(pound figures in millions)

Item	December 31 1913	1914	1918	1929	1939	1945	1946
Number of banks	43	38	26	16	13	13	13
Capital and reserves	£82.07	£81.90	£92.90	£141.59	£140.26	£146.77	£148.87
Deposits	809.35	895.56	1,583.41	1,911.01	2,419.33	4,811.93	6,645.40
Acceptances	61.71	47.80	58.85	179.30	117.26	118.50	194.68
Cash in hand, and money at call and notice	235.96	276.05	481.22	481.34	556.20	965.40	1,163.86
Investments	121.24	146.49	347.23	285.18	632.56	1,253.03	1,445.64
Discounts and advances[b]	539.80	553.50	834.67	1,250.76	1,328.39	2,702.63	3,147.57
Total Assets (Liabs.)	963.05	1,034.49	1,742.72	2,238.86	2,682.49	5,082.48	5,994.46

[a] From *The Economist*, Banking Supplement, May 18, 1935, p. 20; October 27, 1945, p. 8; November 16, 1946, pp. 6-7; November 15, 1947, p. 410.

[b] After 1939, includes Treasury deposit receipts.

Table C—COMPOSITION OF BRITISH BANKS' ADVANCES[a]
(pound figures in millions)

	1929-30[b]		1938[c]		August 1946[d]		August 1947[d]	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Textiles (cotton, wool, silk, linen, jute)	£81.6	8.3	£38.1	4.0	£27.2	3.0	£32.4	2.8
Heavy industries (iron, steel, engineering, and shipbuilding)	63.0	6.4	45.8	4.8	79.5[e]	8.7	105.7[e]	9.0
Agriculture and fishing	68.6	6.9	62.4	6.5	78.3	8.6	95.7	8.2
Mining and quarrying (including coal)	30.0	3.0	15.2	1.6	12.5	1.4	11.8	1.0
Food, drink, and tobacco	63.2	6.4	36.1	3.8	52.8	5.8	68.5	5.8
Leather, rubber, and chemicals	22.0	2.2	14.0	1.5	12.6	1.4	22.6	1.9
Shipping and transport (including railways)	25.2	2.6	26.5	2.8	20.2[f]	2.2	31.0[f]	2.6
Building trades	47.8	4.8	68.1	7.1	51.1	5.6	67.8	5.8
Miscellaneous trades	....	....	69.1	7.2	36.0	4.0	51.7	4.4
Retail trades	146.5	14.8	66 4	7.0	67.8	7.5	109.0	9.3
Total	547.9	55.5	441.7	46.3	438.0	48.2	596.2	50.8
Local government authorities and public utilities (excluding railways)	52.4	5.3	59.2	6.2	77.8	8.5	88.6	7.5
Amusements, clubs, churches, charities, etc.	26.5	2.7	46.6	4.9	37.8	4.2	42.4	3.6
Financial (including banks, discount houses, stock exchange, and building societies)	142.5	14.4	109.0	11.4	87.1	9.6	113.7	9.7
Other advances	218.4	22.1	297.7	31.2	268.8[g]	29.5	333.5	28.4
Total	439.8	44.5	512.5	53.7	471.4	51.8	578.2	49.2
GRAND TOTAL[h]	987.7	100.0	954.3	100.0	909.4	100.0	1,174.4	100.0

[a] Figures for 1929-30 are from *Report of the Committee on Finance and Industry* (the "Macmillan Report") Cmd. 3897 (London, 1931) p. 298; they cover data for various dates from October 24, 1929 to March 19, 1930. Figures for 1938 are from the Bank of England, *Statistical Summary,* November 1938, p. 131, and are for various dates between August 3 and October 31, 1938. Figures for August 1946 are from the *Monthly Digest of Statistics* (London), April 1947, Table 127; those for August 1947 are from *Monthly Digest of Statistics,* July 1948, p. 122.

[b] Ten clearing banks. [c] Eleven clearing banks. [d] Members of the British Bankers Association.

[e] Excludes shipbuilding. [f] Includes shipbuilding. [g] Personal and professional entirely.

[h] In some cases totals do not agree with the sums of the items because of rounding.

Table D—Balance Sheets of Discount Houses[a]
(in thousands)

	Dec. 31, 1913	Dec. 31, 1914	Dec. 31, 1918	Dec. 31, 1939	Dec. 31, 1945	Dec. 31, 1946
Alexanders and Company, Ltd.						
Liabilities						
Capital and reserves	£600.0	£620.0	£700.0	£2,000.0	£2,000.0	£3,600.0
Undivided profits	35.1	38.0	56.0	237.0	262.9	446.3
Loans, deposits, and other accounts	10,134.9	9,427.4	13,826.9	31,131.9	68,231.0	102,764.9
Bills rediscounted	1,497.2	281.7	1,912.3	1,037.5	b	b
Rebate on bills discounted	86.3	76.9	124.2	194.7	....	....
Total	12,353.6	10,444.1	16,619.4	34,601.1	70,494.0	106,811.2
Assets						
Cash at bankers	293.7	350.1	420.5	679.7	1,384.1	1,396.0
Investments	944.2	1,341.7	2,235.4	5,835.3	18,661.6	22,971.2
Bills discounted	10,798.7	8,684.2	13,798.2	27,804.8	50,156.5	82,216.5
Loans and sundry accounts	317.0	68.1	165.4	281.3	291.8	227.5
Buildings and sundries	....	....	....	....	....	....
Total	12,353.6	10,444.1	16,619.4	34,601.1	70,494.0	106,811.2
National Discount Company, Ltd.						
Liabilities						
Capital and reserves	1,351.7	1,351.7	1,346.7	2,150.0	2,776.7	3,153.3
Undivided profits	64.0	64.5	82.9	306.0	283.1	321.9
Loans, deposits, and other accounts	15,757.5	13,010.5	17,973.1	43,872.5	87,948.8	116,139.4
Bills rediscounted	5,656.5	2,285.4	8,388.7	7,348.4	c	c
Rebate on bills discounted	178.3	186.6	323.8	....	....	....
Total	23,008.0	16,898.8	28,115.2	53,676.9	91,008.5	119,614.7

Table D—(concluded)

	Dec. 31, 1913	Dec. 31, 1914	Dec. 31, 1918	Dec. 31, 1939	Dec. 31, 1945	Dec. 31, 1946
Assets						
Cash at bankers	£503.3	£427.9	£515.6	£1,229.3	£1,223.0	£1,307.9
Investments	1,851.1	1,851.9	2,369.0	5,678.2	15,591.1	15,559.7
Bills discounted	19,785.4	13,690.5	23,491.4	46,378.6	73,486.8	102,111.3
Loans and sundry accounts	669.5	761.5	1,446.3	290.9	607.6	535.8
Buildings and sundries	198.7	167.1	292.9	100.0	100.0	100.0
TOTAL	23,008.0	16,898.8	28,115.2	53,676.9	91,008.5	119,614.7
Union Discount Company of London, Ltd.						
Liabilities						
Capital and reserves	1,549.1	1,759.0	1,830.3	3,750.0	4,750.0	7,700.0
Undivided profits	152.7	172.6	168.3	434.9	647.8	595.6
Loans, deposits, and other accounts	20,662.3	16,223.4	27,577.5	66,779.6	144,650.1	205,037.5
Bills rediscounted	8,966.3	3,113.5	4,823.5	10,031.2	d	d
Rebate on bills discounted	229.8	210.0	243.9	473.9	....	....
TOTAL	31,560.3	21,478.4	34,643.5	81,469.6	150,047.9	213,333.1
Assets						
Cash at bankers	886.3	918.7	1,065.7	1,760.9	2,525.7	3,099.2
Investments	2,213.5	2,786.7	4,249.1	6,498.6	29,731.8	56,561.5
Bills discounted	27,363.4	16,634.9	26,657.0	71,230.3	116,542.3	152,246.0
Loans and sundry accounts	954.5	980.7	2,491.6	1,506.7	489.4	1,091.3
Buildings and sundries	142.5	157.3	180.1	473.1	758.6	335.1
TOTAL	31,560.3	21,478.4	34,643.5	81,469.6	150,047.9	213,333.1

[a] From *The Economist,* Banking Supplements, May 22, 1915, May 20, 1916, May 17, 1919, November 16, 1946, and November 15, 1947.
[b] Contingent liability, excluding Treasury bills (1945) £1,267.7; (1946) £3,692.5.
[c] Contingent liability, excluding Treasury bills (1945) £3,090.9; (1946) £5,886.8.
[d] Contingent liability, excluding Treasury bills (1945) £4,061.7; (1946) £8,974.0.

TABLE E—BALANCE SHEETS OF MERCHANT BANKS[a] (in thousands)

	Dec. 31, 1913	Dec. 31, 1914	Dec. 31, 1918	Dec. 31, 1939	Dec. 31, 1945	Dec. 31, 1946
Baring Brothers						
Liabilities						
Capital and reserves	£1,125.0	£1,125.0	£1,125.0	£3,050.0	£3,050.0	£3,050.0
Acceptances	6,636.6	3,723.7	3,064.0	1,646.2	449.3	2,591.1
Deposit, current and other accounts	8,053.4	11,390.1	19,258.0	16,123.7	20,175.9	22,584.1
TOTAL	15,815.0	16,238.8	23,447.0	20,819.9	23,675.2	28,225.2
Assets						
Cash at hand, at call and short notice	3,029.0	7,378.5	5,386.0	3,320.7	3,075.5	3,834.1
Investments	1,503.5	1,489.3	1,607.3	9,530.3	14,840.2	15,883.9
Bills receivable	2,909.8	1,493.6	11,318.0	2,211.2	3,065.9	3,473.7
Advances, liability of customers on acceptances and other accounts	8,245.6	5,750.5	5,008.7	5,630.6	2,566.6	4,906.5
Premises	127.0	127.0	127.0	127.0	127.0	127.0
TOTAL	15,815.0	16,238.8	23,447.0	20,819.9	23,675.2	28,225.2
Erlangers						
Liabilities						
Capital and reserves	....	....	....	1,925.0	1,925.0	1,925.0
Acceptances	....	....	....	2,475.4	3,795.6	4,406.2
Deposit, current and other accounts	....	....	....	2,174.3	1,894.5	2,269.6
TOTAL	....	....	....	6,574.7	7,615.1	8,600.8
Assets						
Cash at hand, at call and short notice	....	....	....	1,005.4	750.4	966.9
Investments	....	....	....	1,044.7	1,691.1	1,657.6
Bills receivable	....	....	....	....	....	....
Advances, liability of customers on acceptances and other accounts	....	....	....	4,524.6	5,173.6	5,976.2
Premises	....	....	....			
TOTAL	....	....	....	6,574.7	7,615.1	8,600.8

Table E—(concluded)

	Dec. 31, 1913	Dec. 31, 1914	Dec. 31, 1918	Dec. 31, 1939	Dec. 31, 1945	Dec. 31, 1946
S. Japhet						
Liabilities						
Capital and reserves	....	....	....	£1,400.0	£1,300.0	£1,300.0
Acceptances	....	....	....	830.3	....	....
Deposit, current and other accounts	....	....	....	1,121.4	596.5	824.0
Bank loan secured under Currency (Defense) Act of 1939	....	....	....	498.9	271.2	....
TOTAL	....	....	....	3,850.6	2,167.8	2,124.0
Assets						
Cash at hand, at call and short notice	....	....	....	834.2	219.5	374.3
Investments	....	....	....	200.4	289.6	257.3
Bills receivable	....	....	....	10.1	....	....
Advances, liability of customers on acceptances and other accounts	....	....	....	2,625.9	1,478.7	1,452.5
Premises	....	....	....	180.0	180.0	40.0
TOTAL	....	....	....	3,850.6	2,167.8	2,124.0

[a] From *The Economist,* Banking Supplements, May 17, 1919, October 28, 1944, November 16, 1946, and November 15, 1947. In some cases totals do not agree with the sums of the items because of rounding.

Table F—SELECTED INTEREST RATES, LONDON MONEY MARKET

Year	Bank Rate[a]	Bank Bills, Three-Months Rate[b]	Short Loans, Day-to-Day Rate Against Bills[b]	Yield on 2½% Consols[c]
1913	4.77%	4.38%	..	3.40%
1920	6.71	6.36	..	5.32
1921	6.09	5.20	4.3%	5.21
1922	3.69	2.62	2.0	4.43
1923	3.49	2.78	2.0	4.32
1924	4.00	3.45	2.4	4.38
1925	4.57	4.16	3.5	4.44
1926	5.00	4.48	4.0	4.54
1927	4.65	4.24	3.7	4.55
1928	4.50	4.16	3.6	4.47
1929	5.50	5.30	4.6	4.61
1930	3.42	2.62	2.4	4.49
1931	3.97	3.53	2.9	4.40
1932	3.01	1.94	1.7	3.75
1933	2.00	.71	.5	3.40
1934	2.00	.81	.6	3.10
1935	2.00	.57	.5	2.89
1936	2.00	.61	.5	2.94
1937	2.00	.59	.5	3.28
1938	2.00	.61	.5	3.38
1939	2.27	1.20	.8	3.72
1940	2.00	1.04	1.0	3.40
1941	2.00	1.03	1.0	3.13
1942	2.00	1.03	1.0	3.03
1943	2.00	1.03	1.0	3.10
1944	2.00	1.03	1.0	3.14
1945	2.00	.93	.9	2.92
1946	2.00	.53	.5	2.60
1947	2.00	.53	.5	2.76

[a] From *British Government Securities in the 20th Century,* Pember and Boyle.
[b] From London and Cambridge Economic Service, *Bulletin IV,* Vol. XXIV (1946) p. 118, and Vol. XXVI (1948) p. 102. (Averages for weeks ending the 15th of the month.)
[c] From A. T. K. Grant, *A Study of the Capital Market in Postwar Britain* (London, 1937); *The Economist,* "Trade Supplement," February 27, 1937; Bank of England, *Statistical Summary,* selected issues between September 1932 and January 1944; and *Monthly Digest of Statistics* (London) January 1947 and July 1948.

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Relation of the Directors to the Work of the National Bureau of Economic Research

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the Bureau is carried on in strict conformity with this object.

2. To this end the Board of Directors shall appoint one or more Directors of Research.

3. The Director or Directors of Research shall submit to the members of the Board, or to its Executive Committee, for their formal adoption, all specific proposals concerning researches to be instituted.

4. No report shall be published until the Director or Directors of Research shall have submitted to the Board a summary drawing attention to the character of the data and their utilization in the report, the nature and treatment of the problems involved, the main conclusions and such other information as in their opinion would serve to determine the suitability of the report for publication in accordance with the principles of the Bureau.

5. A copy of any manuscript proposed for publication shall also be submitted to each member of the Board. For each manuscript to be so submitted a special committee shall be appointed by the President, or at his designation by the Executive Director, consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when the summary and report described in paragraph (4) are sent him. It shall be the duty of each member of the committee to read the manuscript. If each member of the special committee signifies his approval within thirty days, the manuscript may be published. If each member of the special committee has not signified his approval within thirty days of the transmittal of the report and manuscript, the Director of Research shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty additional days shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board and a two-thirds majority of those members of the Board who shall have voted on the proposal within the time fixed for the receipt of votes on the publication proposed shall have approved.

6. No manuscript may be published, though approved by each member of the special committee, until forty-five days have elapsed from the transmittal of the summary and report. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general, or of the special committee, have passed upon its validity in every detail.

7. A copy of this resolution shall, unless otherwise determined by the Board, be printed in each copy of every National Bureau book.

(Resolution adopted October 25, 1926, and revised February 6, 1933, and February 24, 1941)

Financial Research Program: Committee

In the planning and conduct of all research under the Financial Research Program the National Bureau benefits from the advice and guidance of its Committee on Research in Finance. The functions of this committee are to review and supervise the specific research activities of the Program staff.