

**BANKERS' MONEY: A
SUPPLEMENT TO A
TREATISE ON MONEY**

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Bankers' Money: A Supplement to A Treatise on Money by J. Shield Nicholson

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A TREATISE ON MONEY

BY

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PREFACE

THE following chapters are based on a series of Lectures delivered before the Society of Accountants in Edinburgh, the Institute of Accountants and Actuaries in Glasgow, and the Institute of Bankers in Scotland. Some corrections have been made, and the matter has been broken up and arranged in sections for the convenience of the reader, but no substantial changes have been introduced, and the work bears throughout the impress of its origin. The success of the book on *Money and Monetary Problems* (now in its 6th edition) has led the writer to hope that these additional chapters may also prove useful to the same class of readers. The treatment, as in the earlier work, is intended to be introductory and suggestive and such as may help to stimulate those engaged in practical business to a wider study of the principles and history of finance.

J. SHIELD NICHOLSON.

UNIVERSITY OF EDINBURGH,
August 1902.

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BANKERS' MONEY

A SUPPLEMENT TO A TREATISE ON MONEY

CHAPTER I

WHAT IS "MONEY"?

§ 1. *The money of the money market of the United Kingdom.*—In a very able address on the Constitution and Course of the Money Market, delivered in 1888 by Dr Charles Gairdner, late manager of the Union Bank of Scotland, the introductory sentences are as follows: "The money market of the United Kingdom is an institution of great importance and of some complexity. It has gradually grown to enormous proportions, and embraces a *fund* almost equal in amount to the sum of the National Debt. This fund is *held* by the banks, is practically *at call*, and is *repayable in gold*; and yet *ninety-five per cent.* of it is engaged in promoting the industries and material interests of the country and the world, while only five per cent. is actually held in coin." If you consider carefully the meaning of this statement,

it must strike you that, in spite of your familiarity with the state of things described, it is a very extraordinary statement. The *fund* of money of the money market is, on this calculation, over £600,000,000 in amount; 95 per cent. of it is apparently not in the market at all, that is to say, not in the banks by which it is said to be held; and only 5 per cent. is actually in coin. It may be added also that the total amount of coin in the United Kingdom is only about one-sixth of the total money of the money market as given by Dr Gairdner, and it is not in any sense under the control of the banks, but is being circulated from hand to hand.

§ 2. *Its practical importance.*—Since, then, the greater part of the “money” of the money market is not metallic money, the question is, “What is it?” It is no doubt something very real, for, as we all know, the abundance or scarcity of “money” affects the rates charged by banks for advances and discounts, and in that way affects the whole trade of the country. When the scarcity of money becomes extreme, we have indeed a commercial crisis, and for the time being all the trade of the country is thoroughly disorganised. And we know also by experience that at times of crisis the amount of *metallic* money or money material held by the banks is of the most vital importance. In the words of Walter Bagehot, the author of *Lombard Street*, and a banker and an economist of the first rank, “All our credit system depends on the Bank of England for its security. On the wisdom of the directors of that one joint-stock company it depends whether England shall be solvent or insolvent.” And if the precise