THE GOLDEN SOVEREIGN.

A Most Enlightening Review of the Function and Movements of Gold Coin and its Tokens in Paper, Silver and Bronze.

(From the Fortnightly Review.)

The attitude of a certain imperfectly informed section of the daily press is probably responsible for such manfactured anxiety as there may be in public mind anent the recent heavy shipments of sovereigns from this country abroad.

Indeed, it has been suggested that owing to possible shortcomings in our fiscal arrangements these and like disbursements involve a serious national loss and a consequent diminution of gold finding its way into the pockets of the British workingman. A detailed account of these and other movements of coin and bullion will, it is hoped, throw light on the actual facts, and thereby allay any anxiety on the subject. It is no doubt surprising to the uniniated to learn that the annual absorption of gold in Egypt is out of all proportion to its population and poverty. As compared with this countr y it is enormous, although we maintain our papers in a state of luxury undreamed of by the simple felahin of the Nile. But a kindred comparison may be made as between this country and Russia. The one with no gold or silver mines, and the other with some of the richest in the world; the one phenomenally opulent, the other miserably poor.

Such comparisons at once suggest that gold resources and gold reserves are not quite so essential to commercial prosperity as is commonly believed We shall endeavor to show that before the organized forces of modern banking the more clumsy methods of barter employed by our forefathers must yield and that the importance of precious metal as a means of currency must wane, the quantity employed for the purpose forming an ever decreasing fraction of total trade turnover.

The transfer of metallic disks is a mode of barter which is no doubt less cumbersome than the primitive method it has superseded, but it is far too cumbersome for the vast transactions of modern merchants and their bankers, who employ the cheaper, quicker, and in every way more valuable system of a currency of promises.

It is customary to make these promises in terms of coin of the realm, but if they were made in terms of x the great principle of credit would not be affected. It is clear that two men constantly exchanging cargoes of goods credit and debit each other in any symbol they chose, so long as they were agreed as to the purchasing power of that symbol.

The state, however, stipulates, for convenience, that in the event of a dispute arising and their jurisdiction being required, the symbols shall be in a particular set of terms.—i. e.

Terms of Coin of the Realm.

If for any good reason it were decided to make these promises in other terms the business of banking could be equally well conducted under the new conditions. Gold at the present moment is, however, the most convenient commodity for the purpose.

So much, and so much only, has gold to do with banking.

In dealing with the question of "current coin of the realm" we are approaching a subject over which many clever men, statesmen and economists, have admittedly stumbled. They have blundered not through any lack of mental power, but because in forming their conclusions from, as it were, a birdseye point of view, they have dwarfed matters of detail which had they been observed from lower planes would have at once revealed themselves as insurmountable obstacles. The present writer once asked an Australian cowboy why he roofed his house with corrugated iron instead of thatch, urging that the corrugated iron was cold, ugly and expensive, and that the thatch was warm, pretty and cheap.

"But," said the cowboy, "insects get into the thatch, frogs come after the insects and snakes come after the frogs."

We propose to consider the question of the function of the coin and its tokens not from the exalted position of a Chancellor of the Exchequer, but from the point of view of a banker's clerk. To make any safe progress to an understanding of the matter, we must be careful to avoid any vague language. For instance, the words "money" and "cash" are responsible for much hopeless bewilderment; both these words may mean coin, tokens of coin, instruments of credit or purchasing power in any form.

In speaking of coin of the realm (as between the years 1817 and 1907) we must be taken to mean the "sovereign" and "half sovereign" of legal tender weight.

The sovereign is a coin struck at the Mint; it is composed of eleven-twelfths of pure gold and an alloy of one-twelfth copper, the alloy being added to make it harder and thus render it more durable. It is the standard of value of the empire. When quite new it weighs 123.27447 grains, but in the early days of its existence the contact of its sharply milled edges with the sharp and harder steel edged shovel of

The Banker's Cashier

soon clips it of its decimal points. To meet this difficulty of wear and tear and to allow it a sufficient length of legal life a sovereign remains a legal sovereign until it is worn down in weight to 122.5 grains. It then becomes "standard gold," and the Bank of England is under statutory obligations to buy it at £3 17s. 9d. an ounce.

The value of an ounce of standard gold is £3 17s. 10 1-2d., quoting it in terms of itself.

By tokens of coin we mean all silver and bronze pieces struck at the Mint and recognizable as having been so struck. Tokens differ from coins in having a face value in no way related to their intrinsic value—e. g., a new half crown is of no greater value (considered as a token) than an old half crown which is worn down to two-thirds of its original weight. Both old and new half crowns are worth on their face value one-eighth of a sovereign. The value of the metal contained in a new half crown is about 1s. 3d., and the value of the metal contained in an old half crown is about 10d.

By the words "instrument of credit" we mean pieces of paper such as bank notes, bills of exchange or checks, all of which in their present form are abridgments of more elaborately worded letters from one man to another making some kind of definite promise.

For convenience the kind of promise is now confined to terms of coin of this or some other realm.

It will be seen from the foregoing definition of a sovereign that its wastage during its legal life is a little more than three-fourths of a grain, about 1 1-2d., and that the wastage of a half sovereign, is a little more than one half of a grain, about 1d. These differences in value are so small where the use of one or a dozen or so of coins is involved as to pass unrecognized by the general public and unheeded by those who are fully alive to the fact. It is partly due to non-recognition of the varying intrinsic

Values of Gold Coin

and partly due to non-recognition of the cumbersomeness of large masses of metal that much misconception arises as to the actual function performed by gold coin.

Gold coin (and its tokens, shillings and pence) is used among neighbors in small cash transactions, but it is not used, nor could it be used, among merchants in settlement of accounts. This latter function it is a part of the bankers' business to discharge, and it is carried out by them in the cheapest, quickest and safest way possible by the interchange of checks and bills entrusted to them by their clients at a place called the Bankers' Clearing House.

The Bankers' Clearing House is a large room in the City where bankers "settle up" accounts with each other every day. Each banker brings all the checks, etc., he holds, drawn on other bankers, to the Clearing House, and the Clearing House gives him credit for the total amount. The Clearing House (on behalf of all the other bankers) holds documents drawn on this banker, and the total of these is placed on the other side of the account. A memorandum of the difference between the two totals, either for or against the banker, is forwarded to the Bank of England at the end of the day and the banker's account in the ledger of the Bank of England is either debited or credited with the amount of that difference one way or the other. These differences are as a rule small and the labor involved in recording them is insignificant. A few strokes of the pen and the thing is done. In this way the wholesale business of London is settled in a currency of promises (promises far too valuable to be broken, but the cheapest currency in the world). Cargoes of merchandise have changed hands, but the gold in terms of which the values of these cargoes have been quoted, has remained stock still on a number of trucks in a cellar in the Bank of England.

The daily average value of bills and checks passing through

London Clearing House

amounts to about £40,000,000. Perhaps the vastness of this sum may be better realized by saying that the figures represent 300 tons of sovereigns.

The unsuitability of gold for transactions of any size is at once manifest when we consider the cost in labor, the risk and the delay in constantly carting tons of gold through London streets; while as a medium of foreign barter the use of gold coin presents yet further disadvantages.

These further disadvantages are quite obvious to those who have the intimate knowledge of the subject which is born of daily drudgery at it, but they are not apparent to the onlooker who does not take "frogs" or "snakes" into consideration.

The fundamental fact, too, that a legal sovereign can and does differ in intrinsic value to the extent of 1½d. has little weight with a person whose habit of mind associates gold coin with small transactions. He argues that for all conceivable purposes one sovereign is as good as another; that in his experience the purchasing power of a sovereign is fixed and infallible. He has never known any one, at home or abroad, who would refuse payment in that form. He makes no doubt that what is true of small transactions is also true of large transactions.

The man in the street does not recognize the impossibility of the use of coin in large transactions; this is evidenced by the widespread belief that the difference in value between our imports and exports, amounting to some £150,000,000 (or 1,200 tons of sovereigns), is made up by annual disbursements of British sterling coin.

This belief, which probably owes its origin to the fact of values being quoted in terms of coin, has been publicly professed by a colonial Premier and is an accepted canon among the savants of the bar parlor on both sides of the world. Apart, however, from this fraternity there are to be found men of education and ability whose ideas of the function of gold coin are evidently based on experience of small transactions.

The writer has before him a letter from the editor of a London newspaper in which apprehension is expressed as to what would be the result

Were Foreign Importers

to demand gold coin in payment of the bills of exchange held by them in respect of cargoes delivered.

Apprehension, however, is unwarranted, as this country would and does invariably gain by the transaction, and except in such cases as are justified by market conditions such a demand would involve a corresponding loss.

The merchant is fully alive to the many objections to the transport of gold in the shape of either bars or coin, and consequently he never ships it unless it is specifically required in the ordinary course of business. It is then handled in exactly the same way as any other commodity.

The movement of gold implicitly obeys the laws of supply and demand. To those localities where gold is in demand gold will be attracted so long as other forms of property are offered in exchange for it at remunerative rates. "Gold becomes active" when the balance of exchange cannot be met otherwise than by the shipment of gold; also in circumstances of disturbed credit, when it will always go to a premium and a loss will be incurred by the community whose credit is disturbed and by those who hold the securities involved.

Ignoring eddies and disturbances, gold travels on a well beaten track, obeying the same laws as ivory or oranges or chalk.

All commodities proceed from localities where they are plentiful or where they are easily procured or obtained to localities where these conditions do not obtain.

The difference between the value of an ivory tusk in Central Africa, where it is used as a stake in the palisade of the King's kraal and where there are neither the tools nor the knowledge nor the desire to turn it to better account, and its value on its arrival in London is a striking example of the enhanced value conferred upon commodities by the action of trade.

Gold producing countries, such as the United States of America, Russia, the Transvaal and Australia, all export gold to those countries which produce insufficient quantities or none at all.

The British Isles

produce no gold or silver worth mentioning, and consequently all precious metal used in this country is imported; and it is paid for by us in the shape of some corresponding benefit conferred on the countries producing it.

There are no exports of British gold from the United Kingdom.

It is a self-evident proposition that no country can export that which it does not produce.

This country is a large consumer of precious metals exported from other countries.

Distinguished statesmen who advocate the monetization of silver would probably reconsider their opinions if they could be afforded the opportunity of a day's practical experience in handling large quantities of the two metals.

On this head we may perhaps point out that if silver coin were called into existence to discharge the function now performed by gold coin, or any portion of that function an enormous increase in counting house and banking expenses would result pro rata. To raise the silver token to the position of a coin that is to make its intrinsic value and face value exactly the same the silver coin would need to be twice its present size and weight. This would involve using coins twice the size of the present tokens or twice the number of them. Where a transaction was settled in these coins in lieu of gold coins the bulk of metal required would be about fifty times as great as that now employed.

Gold has appreciated in terms of silver owing to recognition of its superior fitness for a variety of functions, and more especially for coinage.

That gold and silver have both depreciated in terms of labor is due to the discovery of large quantities of ore and the discovery of new and cheaper methods of extracting the metal from it, circumstances which have not been counterbalanced by a correspondingly increased demand. The recent enormous variation in the relative values between the two is due to a

Cheap Supply of Silver

on the one hand and the preference given to gold for purposes of coinage on the other. In exactly the same way that gold has recently replaced silver and silver long ago replaced iron nails, cattle, hides, or other early forms of coin, so credit will to a greater and greater extent tend to replace gold. With appreciation of the value of credit will come its popularity. Then those who possess it may be relied upon to guard it as an asset infinitely more valuable for the purpose of currency than disks of gold or even of iridium.

From time to time the opinion is expressed that the reserve at the Bank of England should be increased co-ordinately with the increase of banking transactions. We shall endeavor to show, with all diffidence and the respect due to the many competent expressions of opinion to the contrary, that this course is not only necessary but that it would tend to retard the development of the business of banking by burdening it with expense. Unlike the majority of legislators, Lord Goschen devoted time and attention to the consideration of this important matter, and the opinions he expressed were undoubtedly arrived at conscientiously; but when we turn to the acts of the Government, acts in which he took a controlling part, we find that he did not follow out his own teaching.

If unsoundness consist in the inability of the bankers to discharge their liabilities in gold coin, a reserve of 99 per cent. instead of 7 per cent. would not be an absolute cure. We are sure Lord Goschen would have admitted that "unsoundness" must mean inability to meet any probable or remotely probable call. We shall therefore consider the reasonable probabiilties of the case. We quite realize the possibility of a number of citizens on the same day buying ten times as much bacon as they could possibly eat and continuing to do so for a given period. It is clear that a shortage of bacon would result, and that it would continue until the market readjusted itself to the unwonted requirement.

We contend that any unreasonable demand for gold in excess of needs would have precisely the same result as an unreasonable demand for bacon, and that both are grossly improbable.

Lord Goschen

would perhaps have said that in time of panic the citizen becomes unreasonable, and hence the danger.

We will examine this by the light of actual fact.

Some years ago an old lady fell down opposite the entrance of the London and County Bank, 21 Lombard street. A crowd collected around her. This accident led to a groundless rumor that the house was in difficulties. A number of depositors took fright and a mauvais d-heure ensued.

A notice was promptly put up outside the establishment stating that the doors would be kept open till 10 o'clock at night, or all night if necessary, and arrangements were made with the Bank of England for a sufficient supply of notes and coin to meet any possible demand. In a short time this foolish excitement subsided and the unreasonable "panic" was at an end.

We will now suppose that this unreasonable panic instead of subsiding had spread and that like withdrawals were being made from other banks. We will further suppose that in a single day the banks in question were denuded of gold coin to the extent of $10,000,000 (about eighty tons of gold coin). The question now arises, what would the public do with this vast quantity of metal. Judging from experience as to what actually happened in the case cited, we suggest that the public would bring their money to the Bank of England, and that the Bank of England would on the next day supply the banks affected with the identical sovereigns so received, and so matters would continue until the public came to their senses. Should, however, the public retain the gold in their possession the effect of such a state of affairs would undoubtedly cause the rate of discount to rise abnormally, and gold would be immediately attracted to London from abroad. Such an

Unreasonable Panic

would involve a loss to the community, but it is almost impossible that under the existing organization any failure to meet engagements from shortage of gold could occur.

Are we not much better off under present conditions that formerly, when gold reserves were in greater proportion to liabilities? Under former conditions it was found necessary to suspend the bank act on three occasions, the last time being in 1866. With the growth of modern banking this contingency is becoming more and more remote and clearly indicates that the modern system of credit is not based upon gold or upon any one form of wealth, but upon marketable assets in general.

The banking community, whose heart is in London, needs a substantial minimum of gold at call, which must be sufficient to defeat a "corner." We take it that £10,000,000 would be ample for this purpose, and the present sum held is double that amount.

Experience proves that it is not necessary to financial soundness for a banker to possess gold over and above his normal requirements; what he must possess is the power of attracting gold promptly, and this he can always do by pledging his assets (in forms of wealth other than gold), the market value of which must be, if he is financially sound, far in excess of his liabilities.

In the absence of the a detailed hypothesis showing by what imaginable circumstances, short of a national debacle, gold in such a quantity as the present Bank of England reserve of nearly 200 tons is likely to be suddenly demanded by the public or by the foreigner, and furthermore showing upon what basis we are to assume that our immense power of attracting fresh supplies would certainly cease, we must be content to believe our present holding sufficient.

A minimum is requisite, but what that minimum should be only experience can indicate.

It cannot be a fixed quantity, but must be one varying with the multiplicity of conditions which go to make up national, social and commercial well being.

Alfred Warwick Gattie.

THE DUCHESS OF MANCHESTER,

Formerly Miss Helen Zimmerman, of Cincinnati, has, it is said, been converted by the Countess of Warwick to socialism, and has established a socialistic lace factory, near Kylemore Castle in Ireland. The picture at the left is the Socialistic Countess of Warwick and on the right is Her Grace the Duchess of Manchester, and her little son Lord Mandeville. The picture at the bottom is of Kylemore Castle.

TSCHAIKOVSKY, IN PRISON TOMB, NOW SEES HOPE OF QUICK TRIAL.

Fortress of St. Peter and St. Paul, where from his dungeon cell Nicholas Tschaikovsky, the "Father of the Russian Revolution," prays for his speedy trial, believing he can win his freedom.

THE SPOT ON THE CEILING.

Mr. Flatdweller Takls About Leaky Steam Radiators.

"I hate to be growling all the time," said Mr. Flatdweller, "but we've just had a fresh stain come on the ceiling of one of our rooms, caused by water running through from a leaky steam radiator overhead.

"Of course, radiators ought to be set right to start with and properly equipped so that they would leak, but they are not so people ought to look out.

"Perhaps I ought not to blow my own horn again so soon, but I repeat that in all the time we have lived in flats we have never yet spoiled a ceiling under us by letting water run down upon it from a leaky radiator. Perhaps we are lacking in some other respects. At least as far as leaky steam radiators go we have always looked out for the people below us as we'd like to have the people overhead look out for us.

"And yet I have known some of the nicest people in the world, people who were punctiliously scrupulous in every other respect, who were forgetful of their radiators. But we are none of us prefect, we all have our little shortcomings of one sort and another, and I suppose this must be theirs.

"One of our neighbors is a boss plasterer; an amiable man he is, and with a fine sense of humor.

"'Why do you growl?' he says. 'Why not take a look at it from another point of view? Don't you know that leaky radiators constitute one of the chief sources of revenue for plasterers and kalsominers? Do you want to take the bread out of people's mouths?'

"And I say no, I don't; that I am a friend of the plasterer and of the kalsominer and of all men besides, and I want to see them all do well; and yet—for all the benefit it may be to others—I cannot bring myself to admire that spot on the ceiling.—New York Sun.

The Dublin Exposition closed with heavy losses to the promoters. The deficit is greater than was anticipated, and already exceeds £100,000. The full loss will fall upon the guarantors.

CASE OF SELF-MURDER.

The Alexandra graving dock at Belfast, which has been closed to traffic for more than two years is now ready to receive vessels of the largest class.

Splendid general rains have fallen over nearly the whole of New South Wales, ensuring a good pastoral season and greatly benefiting the agricultural areas.