

CHAPTER VI

THE CO-OPERATIVE USE OF MONEY

THE ACCUMULATION OF SAVINGS

BEFORE proceeding to the consideration of the Money Market, it is necessary to examine two organisations that are in fact departments of it. The first of these is the modern organisation of the Joint Stock system, which embodies the use of collected or subscribed money as the financial "capital" whereby economic activities are carried on.

As will be seen, the financial considerations attaching to joint-stock companies are of Titanic dimensions, and, since these huge subscriptions are in theory provided by the accumulation of "savings" from the money incomes of the individual members, a real understanding of the principle involved, and a close examination of the actual facts concerning the system, becomes of great importance to the student of financial economics.

THE JOINT-STOCK SYSTEM

A business is established usually for the supply of a particular commodity or service for which the promoter considers that there is a demand, and in the hope that ultimately the operation of supplying that

demand will result in a surplus or profit to him as the proprietor of the business.

But with the growth of the present industrial system arose the demand for organisations of a strength and stability beyond the capacity of an individual. The individual in the early days could not provide the "capital" to carry on such undertakings; that is to say, he had not sufficient money to support the activities of those engaged in carrying out the plans of the enterprise.

Therefore arose a new economic function, the supply of capital by means of subscriptions from many individuals, which, being accumulated into a joint stock or fund, became the capital for production or service.

THE INCORPORATED COMPANY

The enormous development of productive power during the last century resulted in a corresponding demand for capital to finance the various undertakings and has resulted in the present organisation of the Joint-Stock Company.

A Company, in the general meaning of the word, is an association of a number of persons who subscribe money to a joint stock, or common fund, for the purpose of employing it in a particular business, and with the intention of sharing amongst themselves the profit (or bearing proportionate shares of the loss) arising from the conduct of the enterprise.

A Company means one that is incorporated under the Statutes affecting such organisations at the time of their formation. The practice of company-formation has become so general and the importance of company interests and activities so gigantic, that the necessary laws for their regulation and control are to-day very stringent, imposing onerous obligations

upon the executives who handle the subscribed capital. Every group of more than ten persons who associate for carrying on the business of banking, and every association of more than twenty persons for carrying on any other business, having for its object the acquisition of gain, must be formed under the proper regulations, and registered with the proper State authority; because, if not so formed and registered it will be in effect an illegal association, and—

- (1) It cannot enter into any kind of contract;
- (2) Therefore no action at law can be brought by it or against it.

LIMITED LIABILITY

An ordinary trading company is to-day incorporated by registration under the Company Acts, 1908 to 1917; and in the great majority of cases the liability of the members or subscribers is limited to the nominal or face value of their shares. Therefore, when such nominal value has been paid, (i.e., when shares are fully paid up), no further liability attaches to the subscriber, and if the enterprise meets with failure, however disastrous, he is at no further loss.

This obviously is a great inducement to the holder of capital, who has responded to the inducement in no uncertain fashion, as shown by the undernoted statistics.

Investment is further induced by the regulations attached to all companies that invite subscriptions from the public, while for the privilege of the limitation of liability companies in general must perform certain acts and conform to a discipline contained in the governing Statutes. Thus the rights of individuals within the company are stated, and at the

same time the interests are protected of all who may deal with it in the course of business.

The distinctive feature of an incorporated company is the well-known fact of its possession of a "legal personality" in addition to and entirely apart from the legal personalities of its individual members.

PROGRESS OF THE JOINT STOCK SYSTEM

At a lecture before the Secretaries Association in November, 1923, Mr. Herbert W. Jordan gave some authoritative statistics and information, and the following notes are based on his observations,—and thereby on the best available authority on the subject.

It was just over sixty years ago, in November, 1862, that the incorporation with limited liability of companies on the basis known to-day was definitely established, by the passing into law of The Companies Act, 1862.

Since that date the law governing limited companies has been developed by successive statutes, by decided cases in the lawcourts, and (although probably not finally) generally consolidated in the Act of 1908.

In the early days registration of a company was regarded as an event worthy of note. From the amounts of the capital with which the bulk of them were registered it may be inferred that the companies were of a substantial character. In 1863/65, for instance, the number of registrations totalled 2,630, and the aggregate nominal capital was £569,179,991. For 1923, the total registrations exceeded 8,000 but the aggregate capital totalled only about £107,000,000. It will be seen that eight or nine companies are now registered for each one registered sixty years ago, but that the average capital has shrunk from £216,415 to £13,107. The decline is caused on the one hand by

the development of the private company, (the granting of incorporation with limited liability to small groups or families, engaged in business), and on the other hand by the increase of duty payable on the registered capital; nothing being payable in 1863 against £1 per cent. in 1920.

The progressively increasing popularity of the Joint Stock system is indicated by the following record of the number of companies registered (with the aggregate capital), in 1863 and in the last year of each succeeding decade :—

Year.	Companies Registered.	Aggregate Capital.
1868	789	£187,912,149
1878	1129	£144,869,295
1888	1588	£144,077,257
1898	2382	£84,720,628
1903	3692	£115,657,804
1918	6871	£146,752,558
1928	8005	£106,968,215

The "record" was reached in 1920, when 10,078 companies were registered in England, with a total nominal capital of £559,299,697.

COMPANIES NOW ON THE REGISTER

During the past sixty years 193,259 companies have been registered in England, with a total nominal capital of £8,790,114,115. Of these companies some 82,000 are now in active operation, their combined "paid up" (as distinct from their nominal) capital being £3,932,000,000. These figures should be regarded as approximate, though they are the result of careful calculation. More than 110,000 companies, it will be seen, (having a "paid up" capital probably in excess of £1,300,000,000), have succumbed in the

course of these sixty years. In the latter case, however, the whole of the capital cannot be said to have been "lost." A large percentage of it probably represents shares originally issued as "fully paid up," without payment, to the promoter of a company, or the vendor of a business being acquired by a company. Amalgamations, absorptions, and reconstructions also must be responsible for large amounts.

But for the student of finance the "money" concerned is the chief interest, and here it is noted that in the course of sixty years the astounding figure of £5,232,000,000 has been subscribed to a joint or common fund for the purpose of financing industry, and that at the present time individual members of the community hold the ownership of almost £4,000,000,000 which in theory is "money" being used by the joint-stock company system, and ultimately repayable by it.

SHARES AND BONDS

In the case of the joint-stock company just examined the investor buys a "share" in the operations of a commercial undertaking, and in fact the name of Share is applied to the document embodying the legal right attached thereto. And in this case, as in the majority of economic enterprises, the shareholder runs the risk of the loss of his capital. The money is supposed to be used by the company, but to be repayable at a specified date or on demand, yet pressure of circumstances may reduce the value of the undertaking to such a degree that it is impossible for the shareholder to realise his capital. Therefore his share may lose part or all of the value for which he subscribed.

But there are other forms of loan-creations to which the element of risk does not attach, and which may be

included generally under the name of "bonds." These are subscriptions by individuals to a common fund raised by a public body and by certain classes of undertakings doing work of a public nature, and by Governments. These loans, which, as we have seen, are supposed to be a transfer of actual "money" from the lender to the borrower, are protected in such a way that their repayment is ensured. The borrower must, at a specified date and on stated terms, produce the "money" and repay it to the lender.

Remembering the credit-creation involved by the banking system, the loaning of large amounts of "money" again creates curious questionings. The British loans on the bond-security, that must ultimately be repaid, probably amount to £1,000,000,000, apart from borrowings of the State, which, by magnitude and importance, overshadow all other borrowings.

THE NATIONAL DEBT

The borrowings of a State are usually included in the description of "The National Debt." The Government of a country is the centralized authority of the individual citizens. The duties of a Government are the regulation of the communal life and the protection of individual and collective rights, and its actions are deemed to be the expression of the collective decision of society. Therefore it is the privilege of a citizen to pay for the benefits of government by subscribing the money necessary to carry on the work of the central authority. He subscribes by taxation; his taxes pay for the intangible benefits embodied in an ordered and disciplined community.

But occasions arise when the Government of a

country cannot obtain by taxation sufficient money to meet its expenditure. Therefore they borrow from their citizens or from foreigners, and, using the money for their present purpose, undertake to repay it after a stated period of time. War, of course, is the principal cause of State borrowings, and the recent disaster to civilization that devastated Europe is its outstanding example. Its remarkable effects are reflected in the undernoted figures.

NATIONAL DEBTS

	1919	1918	Increase
United Kingdom	£7,882,000,000	£766,000,000	£7,066,000,000
86 Principal Countries of the World	£45,801,000,000	£6,387,100,000	£39,418,900,000

The current financial literature is inclined to talk of "inflation" and "watered" currencies, when considering the question of National Debt. In the case of Britain, for instance, the Government is blamed for its "interference" with the financial system, and its creation of an excessive amount of "money" by printing representative money in the shape of currency notes, and (under the operation of the money market) by direct borrowings. Hartley Withers, in "Bankers and Credit," seriously contends that the whole of the necessary "money" should have been found by taxation. The mentality that can seriously make such a contention is hard to understand.

But the fact is beyond controversy or recrimination. The Government owes a sum of money amounting to almost £8,000,000,000, which it is bound to repay, and, according to the theoretical conception of money

