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978-1-316-61171-5 — The History and Mechanism of the Exchange Equalisation Account

Leonard Waight

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THE HISTORY AND MECHANISM
OF THE
EXCHANGE EQUALISATION ACCOUNT

THE
HISTORY AND MECHANISM
OF THE
EXCHANGE EQUALISATION
ACCOUNT

by
LEONARD WAIGHT

*Χρώμεθα γὰρ πολιτεία οὐ ζηλοῦσιν τοὺς τῶν πέλας νόμους,
παράδειγμα δὲ μᾶλλον αὐτοὶ ὄντες τισὶν ἢ μιμούμενοι ἐτέροις.*

PERICLES, *Thucydides* II. 37

*Our form of government does not enter into rivalry with
the institutions of others. We do not copy our neighbours,
but are an example to them.*

JOWETT

CAMBRIDGE
AT THE UNIVERSITY PRESS

1939

CAMBRIDGE
UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom

Cambridge University Press is part of the University of Cambridge.

It furthers the University's mission by disseminating knowledge in the pursuit of education, learning and research at the highest international levels of excellence.

www.cambridge.org

Information on this title: www.cambridge.org/9781316611715

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First published 1939

First paperback edition 2016

A catalogue record for this publication is available from the British Library

ISBN 978-1-316-61171-5 Paperback

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To

R. M. W.

FOREWORD

MR LEONARD WAIGHT'S study of the history and method of operation of the Exchange Equalisation Fund is, so far as I know, the first one to be published. It therefore fills a need which has been experienced, not only by students of the financial machine of this country, but by a wider circle of people who are generally interested in current economic affairs. The introductory chapters dealing with matters of recent history and everyday practice, such as the money market, foreign exchange business and the Bank of England return, will already be familiar both to students and those who have a practical acquaintance with the City. For the intelligent layman the volume stands complete in itself without his having to go elsewhere for an introduction to cognate subjects.

The first study of the Exchange Equalisation Fund made by Professor Noel Hall in 1935 (*The Exchange Equalisation Account*, Macmillan and Co. Ltd.) revealed consequences in the operation of the Fund which were not suspected by the general public and were perhaps only vaguely realised by those to whom the Fund owed its existence when it was conceived and born in the critical period of 1931–32. Mr Waight will be the first to acknowledge that the genesis of the present volume is in Professor Hall's illuminating study, which is now carried a stage further, for the author has added from his own practical acquaintance with the foreign exchange market, comments and descriptions of recent events down to the end of 1938.

There are two aspects of Mr Waight's study which must be mentioned. In his description of methods practised in the foreign exchange market, in which the Exchange Equalisation Fund plays so large a role, and in his comments on the effects which such transactions have on the money market, Mr Waight is drawing on practical experience. Such comments may form the subject of discussion among experts and interpretations from

the available data of common experience are of course proper subjects for technical controversy, but they are based upon wide common knowledge. When however the author makes deductions from such figures as are available, as for instance of the state of the Fund at any moment, the magnitude of gold movements and hoards, etc., he has of course had to use only the incomplete figures available to the public. This side of his study is necessarily therefore conjectural, since outside the Treasury and the Bank of England the full figures for arriving at accurate results are not available. This then is a field of inference and not of fact or experience. To put it more simply: certain of Mr Waight's conclusions contained for instance in the table facing p. 82 are intelligent guesswork, founded upon the incomplete data available to any student to make another guess. It is necessary to sound this warning lest more should be read into these tables and relevant comments than the author intends. The historian may well find hereafter that much in this field of Mr Waight's book will need revision in the light of further information. He will nevertheless have had the advantage of understanding how the situation appeared to contemporaries. He will moreover have the inestimable convenience of finding in one volume (Appendices A–F) a corpus of the legislative documents which affect the subject.

No further introduction seems necessary save to add that this, Mr Waight's first volume, has received the commendation of Professor Noel Hall himself as well as of other technicians who have had the advantage of seeing it in draft form.

FRANCIS RODD

January 1939

CONTENTS

FOREWORD PAGE vii

PREFACE xiii

PART I

CHAPTER I I

Gold standard 1925—The London Money Market—Change in characteristics—The importance of the Treasury Bill—Two-way flow of funds—Britain's economic and financial deterioration—Dollar and franc credits—Gold losses—Gold standard suspension

CHAPTER 2 8

Conditions before the creation of the Exchange Equalisation Account—Return of confidence in sterling—Repayment of dollar and franc credits—The Bank of England's limited power—The need for another agency—The establishment of the E.E.A.—The purpose of the E.E.A.—Borrowing powers—Principles of working

CHAPTER 3 15

Field of operations—Description of markets—E.E.A. in action in Exchange Market—An imaginary transaction—Exchange operation and offsetting thereto—The result produced—Technique

CHAPTER 4 20

Change in characteristics of the E.E.A.—The four phases—The dollar phase—The franc phase—The Tripartite Agreement phase—The gold phase

Résumé of Part I 27

PART II

CHAPTER 5 29

The Bank of England weekly statement—Explanation of items—Issue Department—Banking Department—Proportion—Reserve ratio—Bank Rate—Open-market policy

CHAPTER 6 39

Short-loan market—Treasury Bills, tender and tap—E.E.A. in action in Money Market—Effect on cash ratios—Effect on Bank of England balances—Difference between a sale of Treasury Bills to the Bank of England and the Money Market—Comparative effects of influx of capital under gold standard and managed currency standard with offsetting operations by E.E.A.—Secondary offsetting operations

CHAPTER 7 PAGE 50

Deflation by France to maintain gold franc—Flight of capital from France and other countries to London in 1936—Large gold acquisitions by E.E.A.—Nature of foreign-owned assets—Their effect on the money structure—Restrictive effect—Secondary offsetting operations—Sales of gold to Bank of England—Illustrative figures—Greater restrictive effect of hoarded notes

Key to movements following an assumed influx of foreign capital *

CHAPTER 8 63

Continued fall of the franc—Further gold acquisitions by the E.E.A.—Increase in its borrowing powers—The Daladier franc—The British declaration—Undervaluation of Daladier franc—Repatriation of £80 millions to France—The smoothness of the operation—Cleaning up the effects in the London market—Passing of initiative to French control—Piling-up of funds in Public Deposits—Nature of assets before conversion—Reversal of operations—Delay in replacing lost funds—Expedients adopted—Thwarting influences at work

Key to movements following an assumed efflux of foreign capital *

PART III

CHAPTER 9 78

Cost of financing gold assets—The importance of gold to the E.E.A.—Control of gold price through monopoly—Indirect control of sterling-dollar exchange rate—Gold holdings—Accounting losses on gold transfers—Finance Act clauses—Reconstruction of assets and liabilities—Jobbing profits—Disposal of profits—Special nature of gold sales against a reduction in Fiduciary Issue—Reasons for transfer

Attempted reconstruction of official figures of the E.E.A. *

CHAPTER 10 88

Sterling gold price—How it is fixed—Supply and demand—American and Belgian gold prices—Theoretical parities—Effective shipping parities—When shipments to America or Belgium are profitable—“Premium” and “discount”—Triangular analogy—Automatic balance

CHAPTER 11	PAGE 98
Liquid resources of the E.E.A.—Treasury Bills—Unexercised means of borrowing—E.E.A. Treasury Bills contra Public department Treasury Bills—Interplay of weekly allotment of Treasury Bills and maturities—Other purposes of tender issue—The financing of the E.E.A. gold holdings and immobilised funds—Funding and Defence Loans—Bearing upon E.E.A.—Qualifications of offsetting principle—Mr J. M. Keynes' contention	
CHAPTER 12	108
Distribution of gold holdings—Causes of change in ownership—The gold scare—The dollar scare—Devaluation rumours—Overvaluation of sterling—Pressure on sterling—Large gold losses—Changes in the “premium”—Arbitraged gold—The dilemma of the E.E.A.—Further gold losses from particular causes—Swing over from E.E.A. to hoards—Considerable range	
CHAPTER 13	119
The crisis period—Extensive operations by E.E.A.—Lower dollar exchange rates—Accumulation of funds in Public Deposits—Offsetting methods—New technique—Swap operations—Conflicting features in money and gold situations—Doctrine of offsetting qualified—E.E.A. preparedness—Normal conditions	
CHAPTER 14	128
The E.E.A. as an experiment—Its success—Tests applied—Criticisms—Proposal of Professor Rist—The danger to the E.E.A.—Restatement of essentials—Adequacy of gold holdings—Sterling funds in London—Sterling area countries operating a gold exchange standard—Better distribution of gold—Enlargement of sterling area—Dangers of the position—Conflict of short-term and long-term aims—Achievements	
ADDENDA	143
Currency and Bank Notes Act 1939	152
APPENDIX	
A. Gold Standard Act 1925	155
B. Currency and Bank Notes Act 1928	157
C. Gold Standard (Amendment) Act 1931	164

D. Finance Act 1932 (E.E.A. clauses)	PAGE 166
E. Tripartite Currency Agreement	169
F. Two protocols to Tripartite Currency Agreement	171
G. Figures relating to influx of capital 1936	173
H. Figures relating to efflux of capital 1938	175
I. Figures relating to the period of the European crisis 1938	176
J. Gold imports and distribution	*
K. Gold values of principal currencies on 30 June 1938	179
L. Sterling-dollar exchange rates 1931–38	180
M. Sterling-franc exchange rates 1931–38	181
GLOSSARY	182
INDEX	189

* This four tables are available for download from www.cambridge.org/9781316611715

P R E F A C E

On 15 April 1932 the House of Commons debated the question of the Exchange Equalisation Account. In the course of the debate Sir A. M. Samuel (now Lord Mancroft) said:

I...urge that...we should explain to the people the meaning of our exchange policy, how it operates and what we shall try to make it do.

In the syllabus of the Associate Examination of the Institute of Bankers, under the heading of “Foreign Exchange”, it states that questions may be set on

...Exchange Equalisation Accounts in theory and practice and their connection with and effects on the domestic credit and banking systems; managed currency systems and exchanges; special features of exchanges under the events of the last two decades, with special reference to the past few years.

The above quotations provide the motive for this book.

There are many excellent books on Foreign Exchange written before the exchange fund regime was inaugurated. Some of the theories expounded therein are vitally compromised if not rendered obsolete by the new technique developed in this and other countries since 1931. Those which have been revised to include modern practice deal very inadequately with the subject and give little assistance to the student or general reader. There is also the recognised classic, *Exchange Equalisation Account*, by Professor N. F. Hall, which no student can afford to overlook. It is an outline and an examination of the policy of the Exchange Equalisation Account up to 1935 and is primarily intended for the advanced student or the specialist. Thus, there appears to be a need for a text-book dealing with the *modus operandi* of the Exchange Equalisation Account and its “effects on the domestic credit and banking system”.

This work is not offered as an exhaustive study of the history of the Exchange Equalisation Account. The time has not yet come for that to be undertaken. The aim has been to select the principal phases and events in its history and use them to illustrate in a comprehensive way the evolutionary character of the mechanism employed.

The elementary nature of the work must be stressed; nevertheless, in the presentation of the facts and assumptions on a matter which bristles with technicalities it has been found impossible to exclude the use of many technical terms and phrases. Some atonement has been made by the provision of a glossary of the more important terms used.

In asking for the usual tolerance for any errors of fact or questionable assumptions which may have been made, I must plead in mitigation the secrecy of official operations, which leave the area of exact knowledge on the subject very much circumscribed.

Many of the chapters of this book were already in type when the Bank of England announced the transfer of £200 millions in gold to the Exchange Equalisation Account, and, later, the Currency and Bank Notes Act 1939 was passed.

These important changes came too late to permit the necessary amendments to the text of this book. Instead, footnotes have been inserted where the matter has been compromised by these changes, discussion on which will be found in the Addenda on p. 143.

I wish to acknowledge my indebtedness to the Editor of the *Financial Times* for permission to reproduce in Chapter 10 an article written by me on the sterling gold price and published in that journal on 15 August 1938.

Finally, I must express my appreciation and thanks to my colleague, Mr S. Douglas Rae, for much valuable help in checking the statistical material.

LEONARD WAIGHT

April 1939