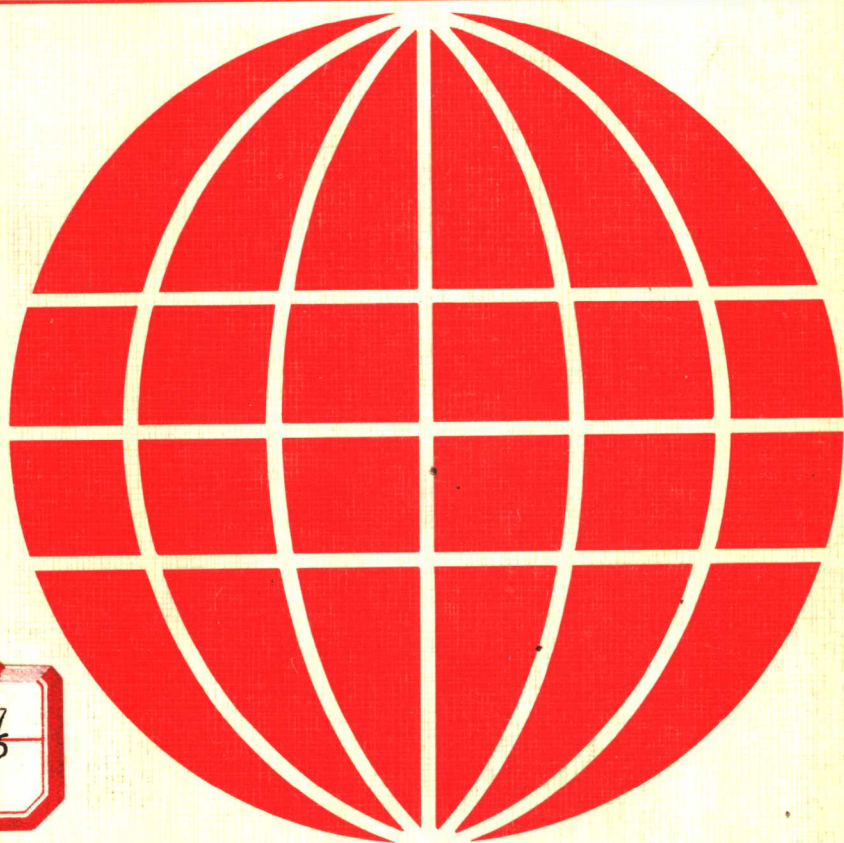


A COMMERCIAL COURSE

FOR FOREIGN STUDENTS

VOLUME 2

**C. E. ECKERSLEY/W. KAUFMANN
AND A. H. ELLIOTT**



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For Foreign Students

Volume Two

by C. E. ECKERSLEY,
W. KAUFMANN and
A. H. ELLIOTT

Illustrated with photographs and diagrams



LONGMAN

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London

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Preface

The first volume of this course covered the various functions of commerce, the work of the wholesaler and the forms and controls of business organisations from the sole trader to the limited liability company. It discussed the work of the various departments of a business concern, gave guidance on, and numerous examples of Commercial Correspondence, examined methods of payment and traced, with documents, the full course of a home and of an export transaction.

The present volume charts an even wider area. It takes the reader to 'the City' and explains what goes on there; it describes the Banking System and the London Money Market, the Capital Market and Foreign Exchanges; it visits the Stock Exchange and shows how it works; it sees how Lloyd's developed from a small seventeenth-century coffee-house into an organisation whose name is known in every country of the world; it watches the work of the 'Baltic' and of the Commodity Markets and notes how the 'Spot' and 'Futures' markets function; it discusses aspects of Foreign Trade—so vital to Britain's welfare—and explains the working of Customs and Excise duties, Bonded Warehouses, Free Ports and Import and Export controls. Turning homewards again to the question of Distribution and Marketing it studies in detail such subjects as the new techniques of the Self-service Store and the Supermarket, Market Research, Consumer Guidance and Resale Price Maintenance. Two chapters describe the growth of large-scale organisations in Trade and Industry—Combines, Cartels, Trusts and the employers' organisations on the one side and the Trade Unions on the other—and review the relations between them. Special emphasis is given to such new, or comparatively new, developments as Automation, and their effect on the individual is studied. The much discussed problem of Restrictive Practices by management and labour and the attempts to curb their excesses are critically examined.

Since Commerce, in so many aspects, impinges on the realms of Economics, we felt it desirable to discuss such problems as Trade Cycles, 'planned' and 'free' economies, Competition and Monopoly, etc. In dealing with International Problems we have included the urgent topics of the Common Market and EFTA and have followed their developments.

The authors are only too painfully aware of the fact that neither Commerce nor Economics ever stands still. The stream of change goes on relentlessly, and to keep up to date a course dealing, as this one does, with both these subjects is a Sisyphean task. In the previous five editions many additions and alterations had already been made which reflect the changing economic world of 1958 to 1968. We have made additions to this present volume, and all statistics have been brought as completely up to date as possible.

As in Volume 1, each chapter of this book is followed by exercises. They consist almost entirely of questions set in examination papers of the London Chamber of Commerce, the Royal Society of Arts and the Local Examinations Syndicate of the University of Cambridge. To meet the requirements of the recently introduced Certificate in Business Studies, which probably will gradually replace most of the older examinations, we have also included questions from examination papers for this Certificate of the main examining bodies (see footnotes on page 24). The student for this new Certificate will find that most of the syllabus of its section *Structure of Commerce* is covered in the first volume of this course, while this second volume deals with a considerable part of the *Economics* section. In some respects it even goes beyond this frame; this advanced work will, we hope, prove useful to the student who wants to go on to a Diploma or a Higher Certificate Course. Exercises specifically designed to improve the student's knowledge of English have not been included as they were in Volume 1. We have taken it for granted that at this stage of their studies students will have an adequate knowledge of English. For this reason, though we have tried to write this book in

as simple and direct a style as was compatible with the subject, we have not tried to confine the material (as we did in Volume 1) within a limited vocabulary. But we realise the desirability of encouraging the student to practise his English, and so after the 'technical' exercises (marked A) at the end of each chapter, we have given passages of prose (marked B) varying in length from a quarter of a page to two pages. These are extracts from widely diversified sources ranging from journals and newspapers (especially *The Economist*, *Financial Times*, *Guardian*, *Times* and *Observer*), from quarterly bulletins and reviews of the Bank of England and various clearing banks, and from books of authoritative writers on Commerce and Economics, to statements by Bank and Company Chairmen and (in a pamphlet published by the Labour Party) by the late Hugh Gaitskell, then leader of Her Majesty's Opposition. The authors of this book do not necessarily agree with the views expressed in these extracts but every extract is relevant to the subject matter of the chapter which precedes it and it often introduces a new or different aspect. Thus these passages can be used for discussion, for stimulating thought and, by being used as précis exercises, for giving the student most valuable training in expressing in good, plain English the ideas contained in them.

The authors are indebted to all those who have assisted in the preparation of this book: to Mr. E. F. Calvert and Mr. Ian McAlley for many valuable suggestions, to Mr. Eric Gomm and Mr. A. H. Milton for reading the chapters on Banking, to Mr. R. J. Brazeley for advice on Marine Insurance, to the Reference Division of the Central Office of Information and to Mr. P. M. de Paris of the Board of Trade Library for providing statistical material, and to Dr. Roy Pryce for his painstaking revision of the chapter dealing with the European Coal and Steel Community, the Common Market and Euratom. In addition, we are obliged to Mr. Calvert and Mr. de Paris for their assistance with the Reading Lists at the end of each chapter, which are a valuable guide for those students who want to study some subjects in greater detail.

For the final revision of the manuscript of the sixth edition the authors are indebted to Mr. D. Fisher and Mr. F. Chambers who have carefully checked and brought up to date the facts and figures in the book and have provided new material where necessary. We are deeply appreciative of this invaluable assistance.

C.E.E.
W.K.
A.H.E.

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Introduction

The City

The commercial and financial heart of London—and of England—is the 'City', that square mile between the Thames in the south and Smithfield and Liverpool Street in the north, between the Strand in the west and Tower Hill in the east. In the centre are the Bank of England, the head offices and foreign departments of the 'Big Four'¹ and other banks, and the London offices of the Scottish and Commonwealth banks and the steadily growing number of foreign banks. Lombard Street, which begins at the Bank, is the home of the Discount Market. The big Merchant Bankers, Accepting Houses, the Clearing House, and the Stock Exchange are all concentrated in the narrow streets, alleys and courts which form the financial core of the City. Lloyd's, the famous marine insurance corporation, is only a stone's throw away and so are the offices of most of the insurance companies.

Grouped round this financial centre are the markets—not the usual kind of market where the housewife buys her vegetables, her fruit and her meat (though the great wholesale meat market of Smithfield and the poultry market of Leadenhall are there, and fish has been sold at Billingsgate for more than a thousand years)—but the commodity markets where hundreds of millions of pounds' worth of wool, tea, grain, metals, furs, etc. are bought and sold every year. There is not a commodity grown or produced anywhere in the world that the City does not finance or market; there is hardly a group of traders anywhere with whom London has not some relationship. The ordinary man, in England, can wear a shirt or a suit made of cloth spun and woven in Lancashire or Yorkshire from wool grown in Australia and

¹ i.e. Lloyds, National Westminster, Barclays, Midland.

of cotton picked in Egypt; he can smoke cigarettes made of Virginia and Turkish tobacco, drink tea from India, coffee from Brazil or wine from France or Italy; he can drive his car on petrol from Persia to see a film from Hollywood, simply because there are certain gentlemen in the City who perform certain vital and complicated functions. It is they who enable him to exchange the products of his work for those of people scattered over the whole face of the globe, people whom he has never seen and may never see. The experience gained by generations of foreign trade in world-wide markets, the facilities given by shipping services that cover the whole globe and the advantages gained by the early development of British industries, have given the merchants of London unrivalled opportunities.

Before 1914 the City of London was the leading centre of international finance. After two world wars with the enormous wastage and destruction of capital assets this position has changed; today New York is in some markets a more important centre than London, at least as far as the size of transactions is concerned. But in many respects the services the City offers are more varied and adaptable. They are also—and in financial matters this is important—more personal. It is hardly an exaggeration to say that in the crowded square mile of the city 'everyone knows everybody'. The position that the City holds is due in no small measure to the ease of personal contacts and to the integrity of its members. The City is jealous of its honour, punctilious in fulfilling its obligations and, where deals of thousands of pounds are made merely by a word, is proud to make its word its bond.

The population of the City is almost entirely a daytime one. Each morning about half a million people come in from north, south, east and west, and then as evening comes and business finishes they hurry home by train or bus or car. Previously this population was almost completely a male one, with top hat, black tail coat, black and white striped trousers, stiff-fronted shirt and stiff white collar. But now all that has changed. There are probably as many women employed in the City as there are men, and the smart modern typist or

woman secretary has done much to brighten up the City office and break down masculine prejudices in more matters than top hats and stiff collars.

The City is very interesting historically and politically. Its financial centre is the Bank; the centre of its government is the Guildhall. The Guildhall is the headquarters of the Lord Mayor of London,¹ the most important person in the City of London, second only to the Queen or King. The King and his government do not reside and never have resided in the City. From the earliest times the City has been ruled by its own elected Lord Mayor and Aldermen, and to this day the King of England may not pass the bounds of the City until he has had permission of the Lord Mayor, and then he comes only as a guest. Throughout its history the City of London has fought stubbornly to gain and to retain its rights. William the Conqueror² had to bargain with the City before it would open its gates to him, and in the Guildhall can still be seen the small piece of parchment on which he granted London its Charter. The City helped the barons to obtain from King John the Magna Carta (1215) and gained from John the right to appoint its Lord Mayor and Common Council. They held the City against King Charles I,³ and it was the City which, disliking the rule of James II,⁴ invited William of Orange to become King in his stead.

The Guildhall was originally built in 1411. It was almost totally destroyed by bombing in 1941, but it has now been rebuilt almost exactly as it was before its destruction. It is in this hall that the Lord Mayor's banquet is held every November, just after the new Lord Mayor takes office. It is the custom for the Prime Minister to be present at this banquet and to give a speech, usually dealing with Britain's international policy.

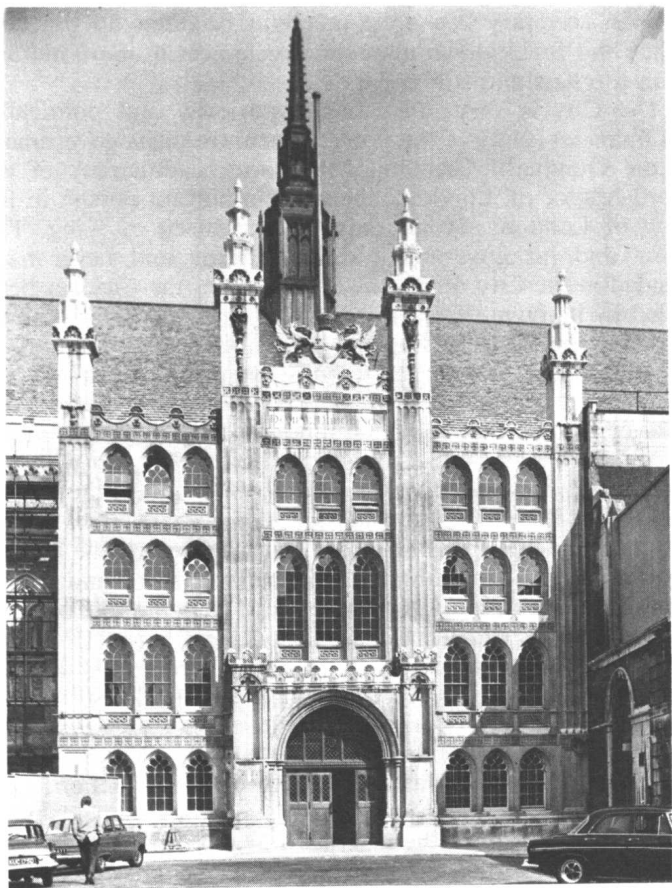
The 'Guilds', from which the Guildhall takes its name, were bands of craftsmen of the same craft bound together

¹ His official residence is the Mansion House opposite the Bank of England.

² Reigned 1066-85.

³ Reigned 1625-49.

⁴ Reigned 1685-88.



Guildhall

to guard the interests of their trade, and they have been a most vital part of London's life almost since the time when London first became a city. They had the right to examine all work done by their members, to destroy any that was 'false' and severely punish dishonest dealing. In Elizabethan

times¹ for example, a goldsmith was condemned to have an ear cut off for falsely marking his gold, and Lord Mayor Whittington² fined the Brewers Company for selling bad beer. There are at present 78 guilds of which the most important are the Mercers,³ Grocers, Drapers, Fishmongers, Goldsmiths, Merchant Taylors,⁴ Haberdashers,⁵ Vintners and Clothworkers; but, though they are interested in the trades they represent, they have, of course, long since lost their despotic power. Nevertheless, they are still influential in the government of the City. It is they who elect the sheriffs, aldermen and Lord Mayor. Most of the companies are very wealthy and their wealth has been used to good purpose. They have founded and assisted famous schools, e.g. Merchant Taylors', Mercers, Haberdashers. Through the newly chartered University of the City of London and its forerunners they have done and are doing a great deal for scientific and technical education with a range of courses largely originating in the specialist fields which the City has made its own.

But our primary interest in this book is not in the political and historical side of the City but in its financial functions. What are these functions? Generally speaking they are four in number: (a) The City gathers in the country's savings and provides channels and machinery for their investment; (b) it provides a safe, speedy and convenient means of payment without the actual use of banknotes or coins; (c) through the medium of the Foreign Exchange Market it makes it possible to exchange one currency for another; (d) it provides the organisation to finance, transport and insure foodstuffs and raw materials on their way from producer to consumer.

¹ Elizabeth I, 1558-1603.

² Lord Mayor 1397-98, 1406, 1419.

³ *Mercers*, dealers in textile fabrics, especially silk.

⁴ *Merchant Taylors*. 'Taylor' is archaic spelling of 'tailor'. A 'merchant tailor' supplied the materials from which the ordinary tailor made the garments that he sold.

⁵ *Haberdasher*. In the sixteenth century a haberdasher was a dealer in or maker of hats and caps. Later the word came to mean a dealer in thread, tape, ribbons, etc.