THE EARLY HISTORY OF THE LONDON STOCK EXCHANGE

Though the Stock Exchange, as a definitely organized body, was not founded until 1773, it had been in existence in the sense of a continuous and organized market for dealing in securities for about a century before that date. Like so many British economic institutions it owed nothing to deliberate creative action by the government, but it developed autonomously to meet the needs which the progress of industry and finance were creating. The increase in the amount of capital and the widening of the market, brought about by the commercial revolution consequent upon the great geographical discoveries, led to the growth of the joint stock company for carrying on trade and industry. While at first there appears to have been little transference of the capital so subscribed, the necessity for permanent subscriptions soon led to the rise of dealings in the shares of the companies. This was encouraged by the scope for speculation arising from the enormous variations in the profits realized. This development was not purely a British phenomenon, for the same thing took place in Holland, which in the seventeenth century was the commercial and financial center of Europe.

The Dutch East India Company, founded in 1602, was typical of the early joint-stock companies. It had, in the latter part of the century, a capital of 6,300,000 florins, divided into 2,100 shares of 3,000 florins each. The dividends on these shares fluctuated widely, and as a result, continual speculation took place in them, as their value varied on account of commercial and political changes. And this speculation was not confined to direct buying and selling, but "time-bargains" were well known. In the "*Mémoire Touchant le Négoce et la Navigation des Hollandaises*,"[1] published in 1699, it is said "sans avoir d'actions, ni méme envie d'en acquérir, l'on en peut faire un grand négoce, et effectivement il n'y en a jamais eu de plus fort."

In Great Britain a similar development had taken place. The seventeenth century witnessed a great growth of the joint-stock company, and at the end of the century there existed 140 joint-stock companies, with a total capital of £4,250,000, though three-quarters of this belonged to the six most important companies. At the same time the growth of trade and industry and the development of banking had both increased the amount of capital seeking investment, and had developed the habit of investment, the latter result being aided by the change in habits of thought in regard to finance which followed upon

[1] Izaak Loyson. Quoted by H. Sée, *Les Origines du Capitalisme Moderne,* p. 74.

the Reformation and the growth of Puritanism.[2] The scope for investment was still further widened by the introduction by William III of the so-called "Dutch Finance" *i.e.*, the development of government borrowing by means of annuities, lotteries and tontines. These offered a wide scope for speculation, for their value fluctuated with changes in the government's credit and with the value of the lives upon which they were secured. It has been said that the origin of stockbroking can be traced to these developments. Thomas Mortimer, the author of the first book upon the mechanism of the Stock Exchange, in a lecture published in 1801,[3] says with reference to government annuities:

> The brokers employed to transfer these funds from one person to another are called *stockbrokers;* and their commission for buying and selling is £⅛ for every £100, exactly the same as is taken by the agents of the Bank of Amsterdam for changing bank assignments into current money; and this is the true origin of the funding system and of the generation of stockbrokers.

Whether this be so or not (and it appears to be only one of several lines of development), it is quite clear that in the last decade of the seventeenth century, a continuous market for the exchange of securities was in existence, and that a class of brokers had grown up, sufficiently well recognized to have a regular tariff, varying from 10 shillings to 5 shillings per share.[4] Regular quotations of the prices of the funds and the principal stocks were given in Houghton's Collections,[5] and in 1694 there is mention of "time bargains."[6] Francis, in *Chronicles and Characters of the Stock Exchange*,[7] traces the origin of such bargains to

> the period of six weeks in each quarter when the Bank books were—as it was then thought—necessarily closed to prepare for the payment of the dividend. As no transfer could be made during this period, it naturally enough became a practice to buy or sell for the opening. . . . . As in these transactions the possession of stock was unnecessary, and the payment of the difference in price was sufficient, bargains became common. . . . .

It appears, however, from what has been said above, that such bargains had already developed in Holland, and it is not impossible that the method had been copied from that country, or that it was in England, as in Holland, a natural development arising from surrounding circumstances. In any case it is clear from the terminology in

[2] See R. H. Tawney, *Religion and the Rise of Capitalism.*

[3] Thomas Mortimer, *Lectures upon the Elements of Commerce, Politics and Finance,* 1801, p. 397.

[4] Houghton, *Collections for Improvement of Husbandry and Trade,* nos. 99, 101, 1694.

[5] See W. R. Scott, *Joint-Stock Companies to 1720,* vol. I, p. 351.

[6] Houghton's Collections, July 13, 1694.

[7] J. Francis, *Chronicles and Characters of the Stock Exchange,* pp. 71-2.

use that such methods of dealing were fully understood; for the terms "put," "refusal," "bears," etc., are frequently used.[8] Further evidence is to be found in the Act of 1697[9] which authorized an increase in the capital of the Bank of England, and which contained a clause invalidating all contracts for the sale of government stock which were not registered within seven days, and the stock transferred within fourteen—an obvious attempt to restrain dealings in margins.

At first the dealing in stocks was carried on in the Royal Exchange, in which dealers in stocks were allotted a "walk" in the same way as the dealers in various sorts of merchandise. But the increase in their numbers, together with the opposition aroused by their real and imaginary malpractices led to a movement to expel them.[10] In consequence they moved their place of business to certain neighboring streets —the ill-famed "Change Alley" of the "Bubble" period. Change Alley was thus described by Defoe in 1719:[11]

> The centre of the jobbing is in the kingdom of Exchange Alley and its adjacencies. The limits are easily surrounded in about a minute and a half, *viz.*, stepping out of Jonathan's into the Alley, you turn your face full south; moving on a few paces, and then turning due east you advance to Garraway's; from thence going out at the other door, you go on still east into Birchin-lane, and then halting a little at the Swordblade Bank, to do much mischief in fewest words, you immediately face to the north, enter Cornhill, visit two or three petty provinces there in your way west; and thus having boxed your compass and sailed round the whole stock-jobbing globe, you turn into Jonathan's again.

The exact position of the stockbroker at this period is one of some uncertainty. It seems clear, however, that dealing in securities was not yet a completely specialized occupation. The chief operators were not dealers by profession, but a class which had come to be known as the "monied interest," who employed agents to carry out their trans-

[8] Cf. Macpherson, *Annals of Commerce,* vol. II, p. 663. Writing of the year 1694, he says, "These newfangled or cant terms (put or refusal) were first brought into use by the Company."

Defoe, *The Anatomy of Exchange Alley,* 1719, "buyers of bearskins;" C. Cibber, *The Refusal,* 1727, Act I, Sc. 1, "All out of Stocks, Puts, Bulls, Rams, Bears and Bubbles."

[9] Statutes III, p. 227.

[10] Anderson, *Origin of Commerce,* vol. II, p. 642. Under Anno 1698, "Writers about this time complain heavily, That the Royal Exchange of London was crowded with projects, wagers, fairy-companies of new manufactures and inventions, stock-jobbers, etc. So that very soon after this time, the transacting of this airy business of jobbing, was justly removed from off the Royal Exchange into the place called Exchange Alley, and since into a building created on purpose, and called the Stock Exchange, where it is now carried on."

[11] *The Anatomy of Exchange Alley, or A System of Stock Jobbing.* This pamphlet, published anonymously in 1719, is the work of Defoe. It is printed as an Appendix by Francis, *op. cit.*, p. 359.

actions.[12] In a play of the period[13] a stockholder is represented as saying, on seeing two gentlemen entering Jonathan's coffee house, "I would fain bite that spark in the brown coat; he comes very often into the Alley, and never employs a broker." These things seem to show that there was a considerable amount of business carried on without the intermediacy of a broker. Yet undoubtedly there was a specialized class of brokers developing. As we have already seen, it appears from Houghton's Chronicles that there was a regular tariff for dealing in securities in 1694; and Duguid[14] quotes a description of a broker from a pamphlet of 1707 to the following effect:

> Brokers of stock are such as buy and sell Shares in Joint Stocks for anyone that shall desire them; as if I am minded to buy two shares in *East India* Stock, I speak to a broker if he knows of any to sell, he enquires and finds one that will sell two shares, which he buyeth for me at the Price currant on the Exchange, and when the same are transferred to me in the Company's Books, I pay for them. And it has been usual to give these Brokers for their Brokerage or Provision as followeth: For *Hudson Bay* Stock, £1 per share: for *East India* Stock, 10/— per share: *Africa* Stock or other petty Stocks as Glass, Lead, Linnen, Copper, etc., 5/— per share. And at this rate there are some have got £1000 or £1500 per An.

In this the broker appears in a very modern light. Some difficulty arises from the indiscriminate use in contemporary writings of the terms "jobbing" and "broking" to describe dealings in stocks. It seems clear that there was some distinction, though it was not the same as that of the modern usage. Thomas Mortimer, in what appears to be the earliest guide to the Stock Exchange,[15] distinguishes between stockjobbers, "having property in the funds," and stockbrokers "with very little and often no property in the funds, who job in them on credit, and transact more business in the several government securities in one hour, without having one shilling of property in any one of them, than the real proprietor of thousands transacts in several years." But this distinction hardly seems to have been the fundamental one, for at least in the earlier period, it seems to have been the jobber who was the large dealer in credit. This is borne out by Defoe's pamphlet,[16] in which it is stated that as the result of one of the transactions which he is criticizing "the jobber has got an estate, the broker two or three hundred guineas . . . .;" from which it would

[12] *The Consolidator or Memoirs of Sundry Transactions from the World in the Moon*, 1705, pp. 256-257.

[13] Mrs. Centlivre, *A Bold Stroke for a Wife*, 1717, Act. IV, Sc. I.

[14] Charles Duguid, *The Story of the Stock Exchange*, 1901, pp. 22-3.

[15] T. Mortimer, *Every Man His Own Broker, or A Guide to Exchange Alley*, 1761, 2nd ed., 1761, p. 36.

[16] *The Anatomy of Exchange Alley;* see Francis, *op. cit.*, p. 361.

appear that the broker had been a mere intermediary, rewarded by a commission on the transactions which had passed through his hands. This same distinction appears in writings of a much later date.[17] The differentiation between the jobber and the broker in the technical sense was a nineteenth century phenomenon.

The growth of the stockbroking and speculation early led to attempts by the government to exercise some control over the brokers. The first Act of this nature was that of 1697[18] entitled "An Act to restrain the numbers and ill-practices of stock-jobbers." The preamble of the act states:

> Whereas divers brokers and stock-brokers have lately set up and carried on unjust practices in selling and discounting tallies, Bank stock, Bank bills, shares and interest on joint stock, and other matters, and have and do unlawfully combine to raise and fall the value of such securities for their own advantage; and whereas the number of such brokers and stock-brokers are very much increased within these few years, and do daily multiply,

and the Act goes on to prohibit anyone acting as a broker "until licensed by the lord mayor and court of aldermen of the said city of London," and to limit the number to 100. Brokerage was limited to 10/- per cent, and very heavy penalties were imposed for breaches of the Statute. The Act, originally passed for three years, was at the end of that time renewed for a further seven, but at the expiration of that period, it was allowed to lapse in spite of a strong agitation for its renewal. Its place was taken by an Act[19] imposing a tax of 40/- per annum upon stockbrokers. In 1711[20] the brokerage was reduced to 2/9 per cent, under penalty of £20 for each offense. In 1719, an Act[21] ". . . . restraining several extravagant and unwarrantable practices" forbade the "practice of acting as corporate bodies to raise and transfer stock except by permission granted by Act of Parliament or Charter," and brokers buying or selling such shares were to be punished.

These acts appear to have been called forth by the public attention drawn to dealings in securities by the commercial crises and financial difficulties of the time which manifested themselves in the growth of speculation. The commercial crisis of 1696-97, caused by inflation and the costs of the war, following on the period of rapid formation of new companies, naturally led to the collapse of many of them. As these things were accompanied by a great outburst of speculation

[17] *A General Commercial Dictionary,* 1819, pp. 169, 351.
[18] 8 & 9 William III, c. 32.
[19] 6 Anne, c. 16.
[20] 10 Anne, c. 19.
[21] 6 Geo. I, c. 18.

in the shares of the companies, there was a tendency for public opinion to confuse cause and effect, and to attribute the series of failures to the growth of stock-jobbing. The Commissioners of Trade, in their "Report on the Present State of Our Trade"[22] in 1696, said:

> The pernicious art of stock-jobbing hath, of late, so wholly perverted the end and design of companies and corporations, created for the introducing, or carrying on, of manufactures to the private profit of the first projectors, that the privileges granted to them have, commonly, been made no other use of, by the first procurers and subscribers, but to sell again with advantage, to ignorant men, drawn in by the reputation, falsely raised, and artfully spread, concerning the thriving state of their stock. Thus the first undertakers, getting quit of the company, by selling their shares for much more than they are really worth, to men allured by the noise of great profit, the management of that trade and stock comes to fall into unskillful hands: whereby the manufactures, intended to be promoted by such grants, and put into the management of companies for their better improvement, come, from very promising beginnings, to dwindle away to nothing, and be in a worse condition than if they were left perfectly free, and unassisted by such laws or patents; an instance, thereof, we humbly conceive, is to be found in the paper and linen manufactures, which, we fear, feel the effects of this stock-jobbing management, and are not in so thriving a condition as they might have been, had they not fallen under this kind of misfortune.

Similarly they express the opinion that the fisheries would not improve until a company could be erected "upon such terms as may secure the management of it from the destructive shuffling of the stock-jobbing." It was further complained, as in the Act of 1697, already mentioned, that the brokers "confederated themselves together to raise the price of stocks." This accusation was common in the writings of the times, and the government's financial difficulties, bringing with them an increase in the national debt and great fluctuations in the price of government tallies and loans, were also looked upon as being in some way due to the evil practices of speculators. What was really aimed at was control over promoters, who were able to carry out their nefarious practices through the mechanism of the stock exchange.

A better founded complaint was that of manipulation of the market. Certain of the larger dealers had established private intelligence services by which they were able to get information in advance of the rest of the dealers. Not only that, but they disseminated false information in order to create a market favorable to their plans.[23] Defoe writes:[24]

> There are those who tell us letters have been ordered by private management, to be written from the West Indies, with an account of loss of ships which have been arrived there, and the arrival of ships lost; of war with the Great Mogul, when they have been in perfect tranquillity; and of

[22] *Journal of the House of Commons*, vol. XI, p. 595.

[23] Francis, *op. cit.*, p. 23.

[24] See Francis, *op. cit.*, p. 365.

peace with the Great Mogul, when he had come down against the factory of Bengal with one hundred thousand men—just as it was thought proper to calculate those rumours for the raising and falling of the stock, and when it was for his purpose to buy cheap, or to sell dear.

If Sir F—— had had a mind to buy, the first thing he did was to commission his brokers to look sour, shake their heads, suggest bad news from India . . . . till perhaps the stock would fall 6, 7, 8, 10 per cent, sometimes more. Then the cunning jobber had another set of men employed on purpose to buy, but with privacy and caution, all the stock they could lay their hands on. . . . .

Again in an earlier pamphlet[25] Defoe had written that East India stock "within ten years or thereabouts, without any material difference in intrinsick value, has been sold from £300 per cent to £37 per cent from whence, with fluxes and refluxes as frequent as the tides, it has been up to £150 again."

Professor Scott has shown, however, that the effects of such manipulation were much smaller than appears from these accounts:[26]

It is to be remembered that the investment of capital was subject to immense risks. So much depended upon the issue of the war that the future of Bank stock and of the obligations of the government was exceedingly uncertain. East India stock, again, was not only subject to special risks during hostilities, but, in addition, accordingly as the expected settlement of the trade was favourable or unfavourable to the Company, its securities in five years from 1697 might be worthless, or selling at 200 to 300. In purely domestic undertakings, all the disappointments that are encountered in starting a large number of new industries simultaneously, were to be anticipated. In view of these factors, all of which tended to produce great instability of prices, it is remarkable that the quotations display so little of the see-saw movement due to market manipulation, but on the contrary follow well defined lines of movement, the causes of which can generally be traced. . . . .

Nevertheless a considerable degree of odium became attached to the pursuit of stock-jobbing, and this, together with the restrictive legislation of 1697, and the financial stringency consequent upon the crisis of 1696-97, led to a period of quiescence. Newspapers which had quoted changes of prices on the stock market discontinued the practice; even Houghton, who in 1694 had printed the names of fifty securities in his list, in 1698 reduced it until quotations of only seven securities were included. But the great increase in government borrowing during the War of the Spanish Succession,[27] the revival in trade bringing with it the promotion of new companies, and the development of

[25] "The Villany of Stock-Jobbers Detected," in *True Collection of the Writings of the Author of the True-Born Englishman,* 1703, p. 257.

[26] W. R. Scott, *The Constitution and Finance of English, Scottish and Irish Joint-Stock Companies to 1720,* vol. I, pp. 358-359.

[27] The National Debt increased from £16,394,702 in 1702 to £52,145,363 in 1718: see W. J. Lawson, *The History of Banking,* 1850, p. 471.

insurance[28] led to a further vast outbreak of speculation, which again turned the attention of public opinion and the government to the actions of the stockbroker.

Then came the "Bubble Era" with all its financial extravagances and a mania almost, if not quite, unrivalled in any period. Naturally the frenzied dealings in securities and the financial chaos which resulted, once again drew attacks upon the dealers in stocks, and there was a vast output of poems and pamphlets calling attention to the evil practices of stock-jobbers. These attacks culminated in the Act of 1733—Sir John Barnard's Act—entitled "An Act to prevent the pernicious practice of stock-jobbing."[29] This act was aimed at some of the most characteristic practices of the brokers—time-bargains—and stated that "whereas great inconveniences have arisen by the wicked and pernicious practice of Stock-Jobbing," all contracts "under which a premium is given for liberty to put upon, or to deliver, receive, accept or refuse any public or joint-stock . . . . and also all wagers or contracts in the nature of wagers, and all contracts in the nature of puts or refusals, relating to the present or future price or value of any such stock . . . . shall be null and void." A penalty of £100 was imposed upon the giving of money to compound differences relating to stock not actually delivered; and a penalty of £500 for selling stock which the seller did not possess. Further every broker was ordered to keep "a Book or Register, known as the *Broker's Book* in which he . . . . shall enter all contracts." The Act was passed for three years, but at the end of that period it was made perpetual,[30] and actually remained in force till 1860.

That the Act was ever very effective in putting a stop to the practices which it condemned there is no evidence to show.[31] On the other hand it is certain that dealings in securities increased steadily, and the failure of the Act seems to be borne out by the fact that a bill "more effectively to prevent the infamous custom of Stock-Jobbing"[32] was considered in 1746, but rejected, and that in 1756 Sir John Barnard introduced a bill "to render more effective the Act 7 Geo. II c. 8" which was also rejected.[33] The suspicion with which dealings in securities were looked upon is shown by the fact that Malachy Postlethwayt in his *Universal Dictionary of Trade and Commerce* (2nd ed., 1757)[34] entitled his

[28] The Hand-in-Hand Society was established in 1696; the Amicable in 1706; the Sun Fire and Life Office in 1710: see J. Francis, *Life Assurance Annals, Anecdotes and Legends*, 1853, pp. 59, 61.

[29] 7 Geo. II c. 8.

[30] 10 Geo. II. c. 8.

[31] Mortimer, *op. cit.*, preface, p. vii., "The Bubbles are indeed burst, and the Race-Horses of Exchange Alley long since dead, but Bears and Bulls still subsist."

[32] House of Commons Journals, vol. XXV, p. 147.

[33] House of Commons Journals, vol. XXVII, p. 566-590.

[34] *Ibid.*, vol. II, p. 763-5.

article on stock-jobbing "Plain Reasons Why Stock-Jobbing Has Been and Still Continues to Be Detrimental to the Commerce of This Nation." The twelve reasons are divided into two groups, firstly, "In relation to trading companies whose stocks have been jobbed in, without due regard to the advancement of the commerce of the nation;" and secondly, "The injurious effects of stock-jobbing with regard to the public revenue funds." Under the first heading, stock-jobbing is accused of causing fluctuations in shares of being the parent of bubbles; of having brought distress through the South Sea and Mississippi schemes; of damaging credit by causing fluctuations in shares; of causing companies to act imprudently and so to bring danger of war; of causing proprietors to be more interested in jobbing than in carrying on business; of injuring private credit by causing money to be used for jobbing, "whereby industries and skillful traders were deprived of credit." Under the second heading he states that the public funds engross money which should be employed in trade, and cause long credit which ruins the merchant and manufacturer; that jobbing in the funds discourages trade; that funding and stock-jobbing lessen the commerce of the nation; and that they give foreigners an opportunity to damage trade.

But in spite of such attacks, stockbroking was establishing itself. After 1733 there was no further legislation against stockbrokers. Mortimer, though a strong opponent of jobbing, as is shown in his book written in 1761, could write in his "Lectures on the Elements of Commerce, Finance and Politics," published in 1801,[35] "This is an evil of the first magnitude, yet it has hitherto been found impracticable to apply an adequate remedy, without injuring the public credit of the funds, by checking the operation of the open market for them at the Stock Exchange." This is a clear recognition of the economic function of the Stock Exchange in providing a free and continuous market for capital. Similarly, the change in opinion is shown by the relaxation of the attempts to control the brokers. In spite of the legislation to the contrary, it is clear that transactions had been carried on without the agency of a licensed broker. In what may be termed the first guide to the Stock Exchange, it was stated "It is a general remark that two-thirds of the people that are constant attenders at the books on the transfer days, and are known to be jobbers, are not legal brokers."[36] But there had always been a general presumption that government stock could only be transferred through the medium of the brokers licensed by the City of London.

In 1767, however, two cases brought by the Chamberlain against pur-

[35] Lecture IV, "On Stock-Jobbing," p. 414.

[36] T. Mortimer, *Every Man His Own Broker,* 1761. The quotation is from the 7th ed., 1769, preface, p. viii, note.

chasers of stock otherwise than through a broker licensed by him were decided against him, and it was declared that government stocks could be bought or sold without the intervention of a broker. This decision gave a considerable stimulus to the growth of stockbroking by bringing it within the range of respectable occupations. The same tendency is seen at work when some of the larger and more reputable dealers tried to separate themselves off from those who had brought the business into disrepute, by establishing a definitely organized body with a code of rules and regulations which would guarantee the respectability of those belonging to it.

At this time business was still carried on in Exchange Alley, centering in Jonathan's and Garraway's coffee houses. Even when the Alley was destroyed by fire in 1748, there was no departure from this practice, and the Alley was rapidly rebuilt through the subscriptions of the brokers. But in 1761 Mortimer[37] writes, "The gentlemen at this very period of time . . . . have taken it into their heads that some of the fraternity are not so good as themselves . . . . and have entered into an association to exclude them from J——'s coffee-house." It was found, however, that it was impossible to enforce this policy of exclusion, and as Jonathan's was now too small for the amount of business to be transacted, this "organized nucleus of brokers"[38] decided to move to an establishment of their own, situated at the corner of Threadneedle Street and Sweetings Alley, which was for the first time formally described as the "Stock Exchange." This movement was accompanied by the drawing up of a body of rules for the conduct of business and the settlement of disputed bargains.

The new Stock Exchange became the recognized center for all dealings save those in government stocks, which continued to be carried on in the Rotunda of the Bank of England, as they had been since its building in 1764. The new Exchange was still open to all who were prepared to pay the sixpence a day charged for admission. With the growth in the respectability of the profession, and the increased business arising from the growth of the government debt and the boom in canal shares, it became necessary still further to tighten up the organization. This was effected in 1802 when the predecessor of the present Stock Exchange was built in Capel Court, and membership regulations made which excluded those whose standing was open to question. These, together with the failures from the House, remained without to become the "little-go" or "alley-men" of the early nineteenth century.[39] Thus by the period when the great demands for capital to finance the inven-

[37] *Op. cit.*, 2nd ed., 1761, p. xiv.
[38] Duguid, *The Story of the Stock Exchange*, p. 60.
[39] Clapham, *An Economic History of Modern Britain*, I, p. 302.

tions of the "Industrial Revolution" arose, the Stock Exchange had become a fully developed organization—a "market for capital" capable of meeting the demands upon it from home and foreign sources, a fact which had no inconsiderable influence in the raising of London to the position of monetary center of the world.

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