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MODERN EXCHANGES.

By Edward J. Shriver.

The modern Exchange is not so young a creation of the present day as it is often considered, being in reality nothing more than a logical evolution from the public market in a country village where buyers and sellers congregate to exchange their wares of all sorts, to which has been added some of the co-operative features of the mediæval trade guild. The Stock or the Produce Exchanges, against which so many journalistic shafts have been launched, and which it has got to be a matter of course for political platforms to attack, are nothing but the village market expanded and specialized to meet the requirements of the city.

All of the older Exchanges were founded in practical recognition of this fact, the primary purpose of their organization being simply to provide a convenient meeting place for the merchants who made a business of dealing in the articles for whose handling it was desired to provide facilities, combined with which was a more or less crude system of rules for the governance of the transactions involved. The next step was to organize a system for the procuring of information as to prices at various points and market news generally, since it was quickly apparent that this could be done much more cheaply by co-operative effort than by individual enterprise. Perhaps the next move in point of priority was the establishment of a relief or life insurance system, which has latterly become an important and not always advantageous feature of such bodies.

It was not until comparatively recent years that the public speculative side of Exchanges became paramount or even prominent. This is now the side of which most people, and especially most critics of Exchanges, think when they consider these institutions at all. Yet the speculative machinery within an Exchange is merely a labor-saving device, strictly in line with the rest of its development. All speculation consists simply in buying a thing for the sake of selling it again at a profit, and where speculation is active, the same article will thus be resold a number of times before it is used up, producing what is called "phantom wheat" or "paper values." The indefinite expansion of such resales is limited only by the physical possibility of making enough transactions and the resultant transfers of the property within a stated period of time; and the thing which increases them so enormously on an Exchange as to sometimes present the anomaly of the entire year's production being sold twice over within a week, is the facility given by the Exchange methods for doing business.

In the first place transactions are made much more quickly and easily (and consequently more cheaply) when the buyers and sellers are brought together at one point, either in person or as represented by brokers who are members of the Exchange, than when they have to run around and hunt for one another. In addition to this everything possible is done by the rules and customs adopted to simplify the ordinary methods of trading. Shares of stock are, of course, of known quality and the prime requisite is only to agree upon a uniform number of shares—ordinarily 100—that shall be the customary unit for dealings. Commodities are carefully classified according to accepted standards of quality, are as carefully inspected by disinterested men appointed by the Exchange officials, so that it becomes possible, for speculative purposes and for the out-and-out sales which hinge largely on these, to deal in an average grade of each article as "wheat," or "corn," or "cotton," etc., making delivery of any other grade at an established difference of value. All the labor of examining each parcel every time that it is turned over is thus avoided, and at the same time a sort of common currency of commodities is established, so that holders are not burdened with odd lots for which it may be difficult to find purchasers. There must, of course, be a resort to more primitive methods in actual consumption, but even here the system is useful as a means of guarding against loss by fluctuation in price.

The modus operandi of all dealings on Exchanges is, briefly analyzed, as follows: One member, who may be operating for his own account, or acting as a broker only on an order received from some outside customer, desires, let us say, to speculate on the chance of a rise; another has equal confidence that prices will fall, and is willing to "sell what he has'nt got," either borrowing the shares or goods with which to make delivery, or merely contracting to deliver them at a future time, and trusting in either case that he will ultimately buy them in at a lower figure. Between these two—the "bull" and the "bear" speculators—it is so far practically only a wager on how the market will fluctuate. But there are others concerned and equally represented in the throng of brokers who constitute the Exchange: the men who are actually producing goods and those who have to use them; the investors who have money to put into shares and the promoters of railways or similar enterprises, who produce the securities. The bull speculator will, in all probability, make his original purchase from the producer, at the same time, perhaps, that the bear speculator sells to the consumer; and when the speculation on both sides has been finally liquidated it will be found that the "bear" has bought from the "bull," and that the accounts of each having been thus settled, that the actual delivery of the goods has followed its natural course direct from producer to consumer.

If the first speculative purchase is made "regular" or "spot"—for delivery on the day following the transaction—cash is paid the same as in any other transfer; but an advance from some bank being usually obtained for the purpose, it is part of the broker's business to attend to the loan as well as the purchase for his customer, so that the latter apparently pays only such amount as the bank may require as margin, and has nothing to do with what may be called the clerical details; yet his purchase is just as real as if he were to pay cash for the goods himself, and without any one's intervention borrow a percentage of their value to reinforce his working capital. Or the same object may be attained by lending the goods to the bear speculator that has been assumed, who pays over their approximate value as collateral, and uses them to make the delivery which he owes to a consumer because of a "short" sale.

Stocks are ordinarily dealt in "regular way," as just described; but the common practice on Exchanges where commodities are dealt in is to buy and sell for future delivery, usually at the seller's option during a specified month; the basic cause of this being that both actual producers and actual consumers of such articles desire, in the majority of instances, to make their contracts in advance, to which desire the speculative fraternity readily accomodates itself. Margins now become purely a security for fulfillment of the contract, being deposited in neutral hands to the joint account of the direct parties to the transaction, though perhaps furnished to the latter—if only brokers acting for principals—by their customers. The essential nature of the transaction remains the same, as in all cases an actual delivery is at least at the bottom of it.

This is a point as to which there is much popular misconception. The ease with which sales can be made through the methods pursued on Exchanges naturally tending to multiply their number very greatly, it soon happens that many of the brokers have bought and sold the same article repeatedly, or at least—the medium being reduced to uniform quantities and qualities—have made a number of contracts which correspond so exactly as to cancel one another. It would be sheer waste of time and trouble to make the actual transfer of articles that have only to pass along from hand to hand, and perhaps finally come back to the original seller on the Exchange (although possibly this last condition may be due to his having bought the same thing for one customer that he has sold for another) and it is one of the worst faults of the Stock Exchange that its rules require an utterly useless transfer of the actual shares sold in every case. The other Exchanges have all adopted a more advanced system, analogous to the operation of a clearing house between banks, by means of which such transactions as balance each other are written off and the differences settled in money; or, if delivery time has arrived before contracts are thus "rung out," a delivery order, called a "transferable notice," is passed along the line, only the parties at the extreme end of which pay and receive respectively the total value of the goods. But in no case can an actual producer or user of goods be excluded from delivering or receiving what he has sold or bought.

The net result is simply that the speculative element which is present in all commerce is set apart from the simple exchange. The primitive market place, where trade is necessarily spasmodic because buyers and sellers do not always happen to meet, becomes a continuous market, where the chance of making a profit out of fluctuations induces a special class of men to be always present in person or deputy, so that anyone who wishes to buy or sell can always find some one to deal with. This constant friction of demand and supply, together with the larger stock which invariably accumulates as one of the tools of speculation, and the reducing to a science of the calculation of risks, inevitably diminishes the violence and frequency of fluctuations. The current of trade in commodities, or of investment funds as to securities, flows more evenly because of the reservoir thus provided; and, curiously enough, experience even shows that the cost of transfer from producer to consumer is lessened.

The full development of the system, however, is only possible in respect of things which can be classified so as to furnish uniform material for a sufficiently large number of dealers. For this reason it has so far been limited to stocks and bonds, to breadstuffs and provisions, cotton, petroleum, coffee and, in a less degree, to crude metals. The numerous bodies where such things are dealt in as real estate, hay and feed, produce, or live stock, are only magnified markets, not yet progressed to the speculative form; where, though there is plenty of speculation, it is impossible to systematize it, because of necessity almost every transaction must have its individual features and is therefore engaged in on special terms.