Financialization of the early Victorian economy and the London Stock Exchange

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London Stock Exchange (LSE):

- some aspects of LSE operations known well, others, especially statistics on operations, almost totally unknown

- “aura of secrecy and anonymity ... has traditionally surrounded the activities of [LSE]” (Kynaston)

- this work: integrates known but grossly underutilized source (stock ledgers at the Bank of England Archive) with better known ones, such as *Course of the Exchange* for mid-19th century
Main results:

- reported prices just a small sample (around 20%) for small securities

- LSE surprisingly small and surprisingly efficient

- LSE an important part of the “shadow banking system,” providing extensive short-term financing
Main basis for this presentation:

- complete transcription of transactions in the South Sea Old Annuity (SO) from October 1838 to 1854 (when it is redeemed or converted)

- aggregated statistics for the dominant part of trading in Consols (CA) from July 1837 to July 1846

- need to be cautious in extrapolating from these government securities to others
Another very informative source:

- report of 1842 Royal Commission on Exchequer Bills forgery
- unparalleled view of internal operations of the LSE
- early example of social network analysis
EXCHEQUER BILLS FORGERY.

REPORT

OF

THE COMMISSIONERS.

Presented to both Houses of Parliament by Command of Her Majesty.

LONDON:

PRINTED BY WILLIAM CLOWES AND SONS, STAMFORD STREET,
FOR HER MAJESTY'S STATIONERY OFFICE.
1842.
Stock ledgers in Bank of England Archive:

- complete accounts of holdings in government bonds
- about 250,000 accounts at any time in 19C
- Morgan and Thomas: “exhaustive study would be impossible” and satisfied with a sampling carried out for them by Bank of England archivists “for the year 1802, in itself a formidable task”
- next 3 slides show samples from general Consols (CA) ledger AC27/2138, a South Sea Old Annuity (SO) ledger AC27/6534, and from CA jobber ledger AC27/2696, courtesy of the Bank of England Archive
<table>
<thead>
<tr>
<th>Name</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thomas Settis</td>
<td>Merchant</td>
<td>300.6</td>
</tr>
<tr>
<td>Rebecca Leverton</td>
<td>Wife</td>
<td>6</td>
</tr>
<tr>
<td>Anna Sophia Isabella Settis</td>
<td>Wife</td>
<td>500</td>
</tr>
<tr>
<td>Charles Lewis</td>
<td>Esquire</td>
<td>500</td>
</tr>
<tr>
<td>Susanna Johanina Settis</td>
<td>Wife</td>
<td>500</td>
</tr>
</tbody>
</table>

**Note:** The table contains entries for various transactions and amounts.
LSE brokers and jobbers:

- brokers brought in business from outside clients

- jobbers (dealers) bought and sold, and thus made the market

- “the world of jobbing remain an unpenetrated mystery” (Kynaston)
THE SYSTEM OF
STOCK-JOBBOING
EXPLAINED.

EXPOSING THE
GROUND OF THE ART,
SECRET MANŒUVRES,
TRICKS AND CONTRIVANCES,
Delusion of the Monied Interest,
AND GENERAL PECULATION.

BEING
An Elucidation of the subtle machine by which Stock-Jobbing confounds
public calculation as to the
RISE AND FALL OF THE FUNDS,
whence a true judgment may be formed of the
Proper Time to buy and sell:
Proving, that to Gambling at the Stock-Exchange may be traced the
Cause of the
PRESENT ALARMING DISTRESS
OF THE
Commercial and Agricultural Interests
OF GREAT BRITAIN.

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To which is added,
A POSTSCRIPT,
Containing Considerations on the Legality of the Prosecution
against Lord Cochrane and Others:
WITH ANNOTATIONS AND A GLOSSARY.

The shame is now—not to be a rogue.—SHAKESPEARE.

BY A PRACTICAL JOBBER.

LONDON:
PRINTED FOR C. CHAPPLE, PALL MALL.
1816.
Example: SO transactions in 1844

- 445 SO transfers in ledgers
- 36 transaction prices in *Course of the Exchange*
- Only about half of transfers were LSE market transactions, the rest gifts, inheritances, changes of trustees, and “shadow banking” operations between financial entities
- Only 1/3 of value of transactions was between the public and LSE jobbers
- Some large financial transactions bypassed LSE
Some findings for Consols (CA) trading:

- 60 jobbers did almost all the general trading with the public

- On average, their holdings of CA were around £0.5 million, whereas CA capital was almost £400 million

- Extensive “shadow banking” transactions, with some obvious suspects (the Rothschilds) playing prominent roles, but some very non-obvious ones (the Hoare bank) in the same range
More information, papers, and presentation decks:

http://www.dtc.umn.edu/~odlyzko/

or just google or bing “odlyzko”

with more to come soon

stock ledger images courtesy of the Bank of England Archive