

**BANKS' CASH RESERVES: THREADNEEDLE
STREET A REPLY TO "LOMBARD STREET"
(BY W. BAGEHOT),
AND AN ALTERNATIVE PROPOSAL TO
THE ONE-POUND NOTE SCHEME
SKETCHED BY MR. GOSCHEN AT LEEDS**

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Banks' cash reserves: Threadneedle Street a reply to "Lombard Street" (by W. Bagehot), and an alternative proposal to the one-pound note scheme sketched by Mr. Goschen at Leeds by Arthur Stanley Cobb

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ARTHUR STANLEY COBB

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BANKS' CASH RESERVES.

THREADNEEDLE STREET

A REPLY TO

“LOMBARD STREET”

(By the late Mr. Walter Bagehot),

And an alternative proposal to the One-pound note scheme sketched by

MR. GOSCHEN AT LEEDS.

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INTRODUCTION.

THERE are times when a merchant will make almost any sacrifice to obtain ready money. He has entered into no rash speculations, and has only to meet the ordinary legitimate demands of his business, but in order to do so he is suddenly called upon to make a heavy and unexpected loss. To this he gladly submits, for he has been in terror lest no sacrifice could save him from bankruptcy and ruin. But how has this been brought about? Why has he doubted whether his banker would afford him the usual accommodation which when entering into his business engagements he had been relying upon?

Or, take the case of a merchant who has a credit of £50,000 at his bankers. Why is he anxious?

The answer in both cases is that there is a run upon the banks and there is a scarcity of cash.

Such a time, Mr. Goschen speaking at Leeds on the 28th January, and referring to the "Baring crisis," told us we had "only escaped by the skin of our teeth." He said "No fertile imagination could exaggerate the gravity of the crisis, and if I attempt to bring home to those who are listening to me now the serious nature of the crisis, I do so in order to accentuate the necessity of their turning their attention to what I may call the necessity for soundness in our banking and soundness in our currency transactions. I doubt whether the public has thoroughly realised the extent of the danger to which what is called the banking crisis exposed us all. It was not a question of a narrow circle of financiers or traders. The liabilities were so gigantic, the position of the house was so unique, that interests were at stake far beyond individual fortunes, far beyond the fortunes of any class. We were on the brink of a crisis through which it might have been difficult for the soundest to pass unscathed, for the

wealthiest to have escaped. It was a time when none who had liabilities or engagements to pay could say how they could pay them if a condition of things were to continue under which securities could not be realised, under which produce could not be sold, under which bills could not be discounted, under which there appeared an absence of cash sufficient to discharge the liabilities of the general public."

This suggests the question—Is there no cash reserve kept for such an emergency?

It is impossible to conceive anything more unsatisfactory than the reply—The Bank of England keeps the only "Cash reserve," but whether it is only applicable to the claims of its depositors, or whether it is also kept for the purpose of making advances upon securities to anyone who may apply for them in an emergency, is an open question. It has been contended on behalf of the Bank of England that it is not kept for this latter purpose, but on the part of the other banks it is maintained that it is. Yet this is the exact position in which the controversy as to banks' "cash reserves" is left.

After the last panic, brought about by the failure of Overend and Gurney, the "Economist" in criticising the speech of the Governor of the Bank of England at the next meeting of its proprietors, said that "it acknowledged the 'duty' on the part of the Bank of England to support the 'banking community,' to make the reserve of the Bank do for them as well as itself," and that "the Bank agrees in fact, if not in name, to make unlimited advances, on proper security, to anyone who applies for it." Mr. Bagchot in his "Lombard Street," p. 168, says:—"This article was much disliked by many of the Bank directors, and especially by some whose opinion is of great authority. They thought that the 'Economist' drew 'rash deductions' from a speech which was in itself 'open to some objection,'—which was like all such speeches, defective in theoretical precision, and which was at best only the expression of an opinion by the Governor of that day, which had not been authorised by the Court of Directors, which could not bind the Bank. However, the article had at least this use, that it brought out the facts. All the directors would

have felt a difficulty in commenting upon, or limiting, or in differing from, a speech of a Governor from the chair. But there was no difficulty or delicacy in attacking the 'Economist.' Accordingly, Mr. Hankey, one of the most experienced bank directors, not long after, took occasion to observe:—

“The 'Economist' newspaper has put forth what, in my opinion, is the most mischievous doctrine ever broached in the monetary or banking world in this country; viz., that it is the proper function of the Bank of England to keep money available at all times to supply the demands of bankers who had rendered their own assets unavailable. Until such a doctrine is repudiated by the banking interest, the difficulty of pursuing any sound principle of banking in London will be always very great. But I do not believe that such a doctrine as that bankers are justified in relying on the Bank of England to assist them in time of need, is generally held by the bankers in London.”

If Mr. Hankey's statement had been accepted there would have been an end of the controversy,