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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ARTHUR STANLEY COBB

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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.