

LESSON VIII.

The British Financial System.

Read: Sections 489-493, chapter 29; also chapter 9 of "Money and Banking."

The Bank of England is the most famous of the great modern public banks. While its capital has been subscribed privately it stands in such close and intimate association with the Government that it is always regarded as a public institution.

The Bankers' Bank.

The Bank of England stands at the centre of the whole financial system of the United Kingdom. It is the bankers' bank. To it the other financial institutions of the country look for guidance and leadership. And they have not looked in vain. As a whole the operations of this Bank have been conducted with consummate skill and the desire to serve the best interests of the nation, and not merely to make profits.

The other financial institutions of Great Britain are:

1. The joint stock banks.
2. The Scotch banks.
3. The private banks.
4. The merchant bankers and accepting houses.
5. The discount houses.
6. The postal and trustee savings banks.

These institutions, as a rule, keep large deposits with the Bank of England. In many cases they rediscount paper at this Bank and leave the proceeds on deposit as "cash." All deposits in fact, at the Bank of England are regarded as equivalent to gold, and are therefore counted in as part of the reserves of the financial institutions of the nation. It can easily be seen that this throws an enormous responsibility upon the Bank. It virtually holds the gold reserves of the whole of the United Kingdom. Moreover, as will be shown, the Bank holds practically the only free stock of gold in the world, and it is drawn upon heavily by other nations. The reserve in gold is not very large at any time, in comparison with the gold held by the Bank of France, the Imperial Bank of Russia, and the National and State banks of the United States. In a word, the British people support the greatest volume of credit in the world on the smallest reserve of gold. Their credit system is the most nicely and delicately balanced and operates with greater ease and with less friction than that of any other nation.

For many years prominent financiers have pointed out the dangers inherent in the credit structure of the United Kingdom,