ENGLISH BANK RESERVES.

In the Londin "Economist" of the 22nd December, which arrived last week, the much discussed question as to the English bank reserves is carried on. Sir Felix Schuster, the chairman of one of the large London banks, and a recognized leader of the forces of the joint stock banks as distinguished from the Bank of England, read a paper on "Our Gold Reserves" before the Institute of Bankers on the 19th December; and with some of his arguments the "Economist" takes direct issue. As most students know, the point in dispute is whether the joint stock banks shall at their own expense gather and keep a larger proportionate gold reserve against their liabilities than they have been accustomed to hold, and so relieve the Bank of England of a part of the strain that now lies upon it. In his paper Sir Felix admitted that the joint stock banks had not held as strong reserves against their deposits as they should have held, but he claimed that they had been gradually improving their position in this respect, and he pointed out that the movement in the direction of a greater concentration of control, through amalgamations, etc., had also resulted in strengthening the situation. But, while admitting that the banks should provide stronger gold reserves against their home business, he contended that it was no part of their duty to maintain a stock of gold for supplying demands from abroad, though he conceded that the recent drain to New York had been largely facilitated by the operations of the banks.

It is against this latter contention that the "Economist" addresses its attack. The editor reminds his readers that it was the action of the London banks in making large advances to American borrowers by means of two different methods that enabled the New York people to draw gold from London—one method was by straight loans against securities, the other was by accepting American bills. The outflow of metal so weakened the Bank of England's position that it was obliged to put its discount rate up to 6 p.c. in the effort to repress borrowing and attract capital to London. As the bank rate forms the basis for practically all the discounting business of Great Britain the effect was to lay a burden upon British borrowers and thus to penalize the home trade and industry. The editorial concludes by saying that as the banks made the profits from the transactions that caused the trouble they cannot escape their share of the responsibility.

One reason why this controversy has dragged so long is, because it is exceedingly complicated and difficult to settle. It is natural that English mercantile borrowers should feel aggrieved at having to pay what they consider ruinous rates of interest because the big London banks had lent so much of their money to Wall Street borrowers. It is said that the London banks have suffered some loss of popularity in consequence. And more latterly they have showed their sensitiveness to British public opinion by reducing their lines of American bills and by impressing on their foreign correspondents the undesirability of their taking more gold from London, while the present tension lasts. One can imagine the tenor of their correspondence with their New York and other foreign customers. "Yes we will accept your bills drawn upon us on condition that you will refrain from taking gold from this market." It is pretty well understood that it is owing to pressure of this kind that the quotations for sterling at New York recently fell considerably below the natural gold import point without any gold being engaged. So that the London situation apparently bears a slight resemblance to that New York situation 13 years ago when our banks here in Canada were obliged to mark their drafts on their New York bankers "payable through the New York Clearing House." Of one thing there is no doubt. London's troubles are mainly due to its position as "chief international money centre." The English people cannot hope that London can continue to be the chief depository for international balances unless it continues also to be the chief place of resort for international borrowers. The Bank of England and the other great banks have their important customers in every part of the world. To keep those customers it is necessary that their reasonable demands be freely acceded to. Otherwise they would probably drift to some other centre and London's supremacy be thus endangered. In one sense the high bank rate of to-day is part of the price England pays for London's position as chief international money centre. The Bank of England, the other banks, the stock exchange, the British iron industries, and other industries are all concerned in London's maintaining its position and all should bear their part of the cost of building up and keeping a gold reserve that would be large enough to prevent very wide fluctuations in interest rates.

A little consideration of the position of the London banks with respect to the advances and acceptances about which complaints were made, will show that much is to be said on their side of the case. How they stood can perhaps best be illustrated by describing the operations with them carried on by our own Canadian banks. Nearly all of our banks habitually keep with some one or two of the big London banks large blocks of first class securities, with the understanding that they be allowed to overdraw their accounts with these securities as cover whenever they wish to do so. When interest rates in New York are very high it