LONDON BANKERS AND CASH RESERVES.

Mr. Asquith, the British Chancellor of the Exchequer, has raised afresh in London the question of bankers' cash reserves. He pointed out that Lord Goschen, fifteen years ago, discussed the sufficiency of the cash reserves held against deposits in the joint stock and private banks. These deposits then amounted to £600,000,000. They now total £1,000,000,000. The increased importance of the question is obvious. In English bank statements the first item among the assets usually is "cash on hand and at Bank of England;" then follows "loans at call and at short date." The two items together constitute the bulk of the reserves against deposits. As an additional defence the banks lean upon their holdings of investment securities and of bills of exchange. This last-named item is not commonly met with in the returns of Canadian banks. When a bank in Canada discounts a bill for a customer it does so with the intention of holding the bill till its maturity. In England a different custom prevails. But it applies mainly to a class of bills not found in any volume in bankers portfolios in the Dominion.

The first-class bill of exchange, as the British bankers know it, is pretty well rock-ribbed in the way of safety and solidity. When a wholesale importer in Toronto, Montreal, or Winnipeg asks his bank for a sixty-day bill on London the bank gives him its own draft at sixty days on its London bankers. The wholesaler then endorses the bill over to his European creditor, who is likely to be a big exporter or manufacturer. On its being offered for discount at a London bank the bill will bear the names of the Canadian bank that issued it, the English or Scotch bank that accepted it, the Canadian wholesaler, the European exporter or manufacturer, and possibly some provincial or Continental bankers.

In a London banking office a close watch is kept on the balance of cash in hand. When it passes certain bounds a batch of bills is bought or discounted. But, in discounting this batch of bills the bank does not do so with the fixed intention of holding them all till due and then collecting them. Custom in England sanctions what is called re-discounting. None among the strong Canadian banks would think of transferring to another institution any of its bills discounted either by way of sale or as security for advances. That is only done by banks whose discounting business exceeds their own resources, and by the liquidators of failed institutions.

A regular open market exists for these bills in London. When the banker who has bought his batch of bills finds his cash balance running down or some heavy obligations maturing, he selects from his portfolio of bills a batch which he discounts in the market. His credit does not suffer by the process, for nearly everybody does the same thing. It is recognized that bankers' investments in bills are made purely for convenience. The amount so invested runs up or down, according as surplus funds are large or small.

All this has a connection with the cash reserves. The gold reserve held by the Bank of England is regarded as the last resource in case of emergency by the joint stock banks and the great commercial and financial houses. That is why the weekly statements of the bank's position are so eagerly watched in times of stress by those who have balances there. As the balances are kept there for emergencies they wish to know all about the bank's ability to pay on demand. But the bank's specie reserve in time of crisis would be subject to demands from other directions. The joint stock banks hold their reserves in the form of cash, balances in Bank of England, call loans, bills of exchange, and securities. Among these only "cash" could be used in a time of stress without throwing directly or indirectly a strain on the Bank of England's reserve. Were the joint stock banks to call their loans the borrowers who were called would look, many of them, to the Bank of England to take them over. Were they to re-discount or sell their bills of exchange, the Bank of England would be looked to for the funds to take a great part of them up. And were they to sell consols or other securities, those who purchased would likely ask the Bank of England to lend its assistance.

That is how it is that so much discussion hinges around the size of the bank's reserve of coin and bullion. Nearly everybody agrees that it is too small for the work that is expected of it. The controversy turns on the question as to who shall bear the cost of strengthening it. The Bank of England people argue that for its own liabilities its reserve is quite sufficient and that where it falls short is in respect to the liabilities of the joint stock banks. Therefore, they say, the joint stock banks should pay the cost, whatever extra reserve is required, against their own liabilities. They should either hold a much larger proportion of cash—and less in securities, bills or short loans—or keep larger balances at the Bank of England if they wish it to hold their reserves for them. In this way the joint stock banks would pay the cost, since their funds going to make up the extra cash reserve would earn no revenue.

The joint stock banks reply that the reserves they now hold are quite good; that they can, whenever necessary, provide for their liabilities by calling loans and selling securities and that the Bank of England is under a certain moral obligation to preserve financial tranquility because of its great state privileges; one of which is its extraordinary monopoly of note-issuing rights. They say, also, that for each joint stock bank to hold its own cash reserve would produce so great a lock-up of cash as to cause a scarcity. To the proposition to increase their balances in the Bank of England they object that, were they to do so, there would be nothing to prevent the Bank of England from using sixty per cent. of the extra deposits it received in competing for the discounting business of the very banks that handed them in.

A compromise will probably be effected. The Bank of England has always been ready to recognize its public duty. The joint stock banks recognize that they should bear their part of the cost of providing larger reserves. It is likely that some plan will be devised whereby the extra reserve will be held by the Bank of England, but will not be available to be used in competition against the joint stock banks.

—Capital would seem absolutely to have withdrawn itself from stock investments, future values being thoroughly undermined or largely at sea. It would be surprising if this were not so. Legislation by Congress and by State law-making bodies has surrounded all such securities with so great uncertainty as to earning power in coming years that confidence in future stability is lost. Hence prices are in control of trifling suspicions or rumors of unfavorable facts, whether true or not true. It will not be long, unless something shall come to arrest this tendency, before we shall find that we have frittered away the best chance for industrial prosperity the United States has ever had offered it.—"Financial and Commercial Chronicle," New York.