

It is of the greater importance to know whether the London money-market is organized on such a sound basis as would enable it to meet in a satisfactory manner the strain which would be placed upon it by a great war. London is the centre of the world's financial system; and she conducts her vast credit transactions with an almost incredibly small reserve of gold. This is rendered possible by the soundness of her credit system. Ever since the resumption of specie payments in 1819 London has furnished the only free market for gold in the world. The influences which have made London the financial centre of the world have been, among others, the magnitude of the nation's shipping industry; the economy and soundness of British banking methods; the stability of her political institutions, and a reputation for fair dealing. Moreover, for nearly a century the country has had no experience of a war in which its commerce was endangered; and so, in a sense, Great Britain has become the safe-deposit vault of the world. If Germany should ever be able to challenge the United Kingdom's naval supremacy, of course these conditions would be materially changed.

The state of the gold reserves of the credit institutions of the country has an intimate bearing upon the financial soundness of a nation in war. The internal and external liabilities of the banks, have grown enormously in recent years; but the gold reserves have not grown in any like proportion. The deposit and current accounts of the banks of the United Kingdom amount to about £913,000,000; or, including the savings banks, to £1,123,000,000; while the average stock of gold held by all these institutions cannot well exceed £60,000,000. The average stock of bullion and specie held by the Bank of England during 1909, was £37,300,000; and on this comparatively small stock of gold the nation would have to depend in time of war, apart from the supplies which might reach the country from abroad. As an illustration of the extent of the internal demand for gold, which might arise at a time of war, it is instructive to note that the cash in hand at the Bank of France on June 9, 1870, was £60,480,000; and by September 8, 1870, the amount had fallen to £28,160,000. Thus, in three months, the Bank of France had to part with £32,000,000. A few years ago the late Sir Robert Giffen expressed the opinion that, in the event of war with a great European power, the internal demand for gold for use in the United Kingdom would absorb the entire stock at present held in reserve. But the greatest danger lies in the possibility of a sudden large foreign demand for gold, which would be certain to arise, and which would likely oblige the Bank of England to suspend specie payments.

The practical value of a large gold reserve was strikingly illustrated during the Russo-Japanese war. At the beginning of the war the Bank of Russia and the imperial treasury held £105,300,000 in gold. The possession of this huge stock of gold enabled Russia to raise money in Paris and Berlin, as cheaply as her adversary was able to rise it in London; and had the war been prolonged it would have undoubtedly played a more important part in the conflict.