THE FUNCTIONS OF THE BANK OF ENGLAND.

In continuation of its series of publications upon the banking systems of the world, the National Monetary Commission of the United States has just issued a monograph upon the English banking system. The writer is Mr. Hartley Withers, formerly financial editor of the London Times, now of the London Morning Post, and the author of a brilliant book upon the London money market, "The Meaning of Money," which, appearing last year, has already taken rank as a standard work upon the subject, and may, in fact, in some sense be regarded as a successor to Bagehot's "Lombard Street." Mr. Withers begins his monograph with an enumeration of the distinctive functions of the Bank of England, which he declares to be as follow:—

1. Banker to the British Government.
2. Banker to the joint stock and private banks.
3. (*a*) Sole possessor of the right to issue notes which are legal tender in England; (*b*) sole possessor, among joint stock banks with an office in London, of the right to issue notes at all.
4. Provider of emergency currency.
5. Keeper of the gold reserve for British banking.
6. Keeper of the gold reserve which is most readily available for the purposes of international banking.

These various functions, says Mr. Withers, fit into and supplement one another, and though their diversity is sometimes pointed to as throwing too much responsibility on to one institution, it, in fact, enables the bank to carry out its duties with extraordinary ease and with the least possible disturbance to the financial community. By the fact that it keeps the balances of the other banks, the Bank of England is enabled to conduct the payment of the interest on the British debt largely by transfers in its books. By the fact that it keeps the balances of the Government and has the monopoly of the legal tender note issue, the bank has a great prestige in the eyes of the general public, which it communicates to the other banks which bank with it.

A credit in the books of the Bank of England, continues the writer, has come to be regarded as just as good as so much gold, and the other banks, with one exception, habitually state their "cash in hand and at the Bank of England" as one item in their balance sheets, as if there were no difference between an actual holding of gold or legal tender and a balance at the Bank of England. It thus follows, at times when an increase of currency is desirable, that it can be expanded by an increase in the balances of the other banks at the Bank of England, since they thus become possessed of more cash to be used as the basis of credit; for currency in England chiefly consists of cheques, and customers who apply to the banks for accommodation by way of discount or advance, use it by drawing a cheque, which is passed on and so creates a deposit, and expansion of currency thus consists chiefly in expansion of banking deposits. This expansion is only limited by the proportion between deposits and cash which the banks think fit to keep, and as long as they can increase their cash by increasing their credit in the Bank of England's books the creation of currency can proceed without let or hindrance.

When its rate is not effective the Bank of England finds itself obliged to intervene in the outer money market—consisting of the other banks and their customers—and control the rates current in it. This it does by borrowing some of the floating funds in this market, so lessening their supply and forcing up the price of money. By means of this borrowing it diminishes the balances kept with it by the other banks, either directly or indirectly—directly if it borrows from them, indirectly if it borrows from their customers, who hand the advance to it in the shape of a cheque on them. The result is that so much of the "cash at the Bank of England," which the English banking community uses as part of its basis of credit, is wiped out, money—which in London generally means the price at which the bankers are prepared to lend for a day or for a short period to the discount houses—becomes dearer, the market rate of discount consequently tends to advance, the foreign exchanges move in favour of London, and the tide of gold sets in the direction of the Bank of England's vaults, and it is enabled to replenish its reserve or check the drain on it.

In summing up the relation of the bank to the English money market and to the international money market, it is declared by Mr. Withers that the prestige which makes a credit in its books as good as gold enables the banking community to expand credits and make cheque currency as long as the Bank is prepared to lend credit. At the end of the half-year it is sometimes applied to for fresh credits to the extent of over twenty millions sterling, chiefly in the form of advances for a few days. On one side of its account its holding of securities is expanded by this amount and on the other its liability on deposits is similarly swollen.

THE MAKING OF A CANADIAN INDEX NUMBER.

The fact that henceforth the Department of Labour will be able to carry forward on a proper basis, a contemporary index number of prices in Canada from month to month is not the least important of the results which have accrued from the exhaustive investigation into the course of prices in Canada from 1890 to 1909 which the Department has recently concluded, and the results of which have now been published (see THE CHRONICLE, August 26, p. 1237). An index number is a statistical contrivance whereby facts so apparently remote from each other, if not incompatible, as, say, a rise in the price of milk measured by the quart, and a decline in the price of pig iron measured by the ton, may, in effect, be stated in the terms of a common denominator, and reduced to a single expression. An index number is the ratio between the price of a given article or number of articles at a given date and the price of some other article or number of articles at some other date or period selected as a base or standard. Percentages being purely relative expressions may, when reckoned on a common basis, be combined or compared in a way impossible with actual prices.

In the Department of Labour's recent investigation the object has been to construct, in accordance with approved principles, an index number of prices for Canada, covering the past twenty years. In 1890 a committee of eminent economists appointed by the British Association for the purpose