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The Insufficiency of Our Cash Reserves and of our Central Stock of Gold

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NOTES AND MEMORANDA

THE INSUFFICIENCY OF OUR CASH RESERVES AND OF OUR CENTRAL STOCK OF GOLD.

UNDER this title Mr. Goschen re-published his Leeds speech. In the March number of the *Economic Journal* Professor Foxwell has a note entitled 'Mr. Goschen's Currency Proposals,' in which he truly says that 'Mr. Goschen's main purpose is connected not so much with currency as with banking.' I have in another place¹ attempted an examination of the grave national question of Bankers' Reserves, and I now desire to continue that discussion. Laments have been raised because of the apparent apathy and indifference of bankers, and because, though the labourers in the field have been many and ingenious, yet the crop of results has been a very little one.

It is at least probable that Mr. Goschen's treatment of the matter is in part responsible for this failure. The questions he raised at Leeds were three—'the inadequacy of our bankers' reserves, the insufficiency of our central stock of gold, and £1 notes.'

The first is a question of proportion—a banker's question.

The second and the third are linked together so as to raise some of the most debatable problems of currency and credit.

£1 notes are to be a means by which the central stock of gold is to be increased, and a sort of perpetual automatic self-suspensory action of Peel's Act inaugurated. The question of the inadequacy of our cash reserves is the greatest of these three, and one which has no necessary connection with currency, but it has been allowed to sink into a secondary place. Here, it seems to me, is the root of the mischief. Peel's Act, mono-metallism, bi-metallism, the international gold market, the right of private issue—in short, the currency question in all its hideousness, like a never ending nightmare, has been invoked and bars the way. Bankers' reserves have little to do with the currency question—they are a matter of proportion. Bankers in

¹ 'Bank Reserves, the Central Stock of Gold, and £1 Notes,' *Transactions of the Manchester Statistical Society*, 1891-92.

England do not make, but deal in money. The *banking* question is this, Do bankers as a body keep *sufficient* unemployed cash to ensure their own and the national safety? The basis of banking contracts is to repay on demand a sum in legal tenders. We need not stay to inquire what is cash. The state settles that question, and it would be no answer to an official receiver asking curiously the cause of failure to say 'We did not keep a reserve because we were much interested in the question, Should notes be issued solely against bullion, or should they be issued partly against securities?'

For bankers, for the public, for the nation the question of bankers' reserves is narrowed down to one of quantity. It is a matter of administration, prudent or imprudent,—safe or unsafe. Are our cash reserves adequate in *quantity* or are they not? We want, if it be possible, to settle this comparatively simple point. Mr. Goschen answered the question at Leeds. He brought forward prominently, he reiterated in his speech again and again in strong general terms, his conviction that the banking reserves of the country were inadequate.

'You do not keep *sufficient* loose cash,' is the burden of the speech. 'Keep *more* cash unemployed' is the whole contention. This, I repeat, is to my mind the most important of Mr. Goschen's contentions. He placed before the nation a statement of what he believed to be fact. His case was provable or disprovable. If provable—to demonstrate the accuracy of his statement was to fix responsibility. Most men give a vague general assent to his proposition—they are all willing that their neighbours should treat it as proved. If I may with propriety use the illustration, Mr. Goschen made counsel's opening speech and then called no witnesses. An effective public opinion cannot so be formed. We have to displace a traditional belief in an existing system. The English money market relies in the last resort on the Bank of England. The first thing to do was to prove to bankers that the old order had become dangerous, and that they must take up new responsibilities.

Mr. Goschen had much in his favour. The ground was prepared for him, and he was supported by the public declarations of the Governor of the Bank. I soberly repeat the suggestion that a select committee of the House of Commons on the *banking* question would be of great practical use. Mr. Lidderdale would, no doubt, explain to such a committee the course of the Baring crisis, the attitude of bankers and the amount of their preparedness to meet stormy times, and his reasons for believing that legislation alone would do little to secure safety, unless each bank in its degree recognised its responsibility for the maintenance of a sufficient national reserve. This statement of views formed in the Supreme School of Experience would be of permanent value to the country. Such a committee would hear also from the great joint stock and private bankers their opinions as to their individual responsibility in the matter of reserves. In my own mind I am keeping perfectly distinct from the currency question this

banking question of quantity. Such an inquiry would do one of two things—confirm and strengthen our faith in the present order of things or be the beginning of a new state of affairs. ‘It’s dogged does it’ in most things. There is no fame to be won by this laborious policy. The man who undertakes to build up a sound banking opinion on the matter of reserves would perform a service to the people which they would probably never be conscious of or understand—nevertheless he would *deserve* well of his country. There seems to be an almost insuperable difficulty in dissociating the banking from the currency question. But the distinction between the two is plain. Whatever the basis of legal tenders—gold, gold and securities, or gold, silver, and securities, or even copper, iron, and brass—if such were international money—for bankers it is a question of quantity. Bi-metallists may argue, You cannot get sufficient gold, you must therefore use gold and silver; and they are justified in raising the contention. It is fair matter of argument, but, when that great controversy is finally closed, how much will the position of bankers be improved, if they have failed to keep a larger percentage of their deposits unemployed? Herein it seems to me lies a grave defect in Mr. Goschen’s policy. Had he pressed forward this matter of bankers’ reserves, the second reserve would have taken its naturally humble second place. The strong and resolute policy of *convincing* the banking world would have ensured success. Once the responsibility accepted, there could be no going back.

The fear of competition causing an undue employment of money need not be considered. Bank shareholders, bank depositors, bank managers, would learn to look for and scan the figures as the public now study the published returns of the Bank of England. In business life the impossibilities of theory are every day practised. The times are propitious for arguing this important question. The crisis is behind us, not looming in front, and criticisms of a system, which would be dangerous in the electrical atmosphere of a crisis year, because they might be applied to individual cases, will in this quiet time be taken only as illustrations of a general state of affairs. Bank directors and bank managers would feel the moral support of an enlightened public opinion, if it were once brought home to them that the provision of reserves *must* be made even if it involved a loss of dividend. It is hardly reasonable that some should make proper provision and not all. Put plainly, our present system of reserve keeping amounts to this. A. has forty millions repayable at call, he has large capital, securities of the highest character, and—given time—could make them all liquid; but he has little cash reserve—merely a good supply of till money. His neighbours, great and small, act in precisely the same way. But suppose that any sudden run is made on one of these establishments, where will its managers go for cash? There is only one considerable store of loose cash and that is at the Bank of England. To that goal all roads tend.

If the system did not exist, the man who suggested its introduction

would be branded madman. Nevertheless it exists, and has worked better than could have been expected. Unfortunately the disposition of some minds is to brand those who suggest change.

The conditions under which trade and banking are carried on have greatly changed, and we have to determine in quiet times to what extent we require to adapt ourselves to our altered circumstances. Perhaps, if we do not recognise our true position, the keen school of disaster may cut the lesson in. I will now suggest some of the points to be considered in forming a judgment. In the first place, the gravest danger feared by Mr. Goschen and Mr. Lidderdale in November 1890 was *internal* panic, the crippling of the bank system, a paralysis of trade. If Barings had failed there would have been disaster abroad as well. Language more decisive than that employed by Mr. Goschen has rarely been used by a responsible person. As an element in coming to a right judgment, Mr. Goschen's declarations, familiar as they are, need to be quoted again.

'No fertile imagination could exaggerate the gravity of the crisis. I doubt whether the public has thoroughly realised the extent of the danger to which the so-called Baring crisis exposed us. You risked the deposition of London as the banking centre of the universe. You risked the supremacy of English credit. The situation would have been brought home to you, if banks who held your deposits, banks on whom you depended for your discounts, had been crippled. . . You have escaped from catastrophe which would have affected every town. . . What is necessary to get men out of difficulty when they have undertaken more liabilities than they can meet is to have *cash*. In the case of foreign liabilities what you want is *cash*. What was developed to my mind was this, that there were *not sufficient* banking reserves in the country.

'Here I must give utterance to a strong conviction that the banking reserves of the country are inadequate to the necessities of the country and are too *small*.

'In times of crisis reserves are essential. It is of supreme importance that all the great banks of the country, at the moment a crisis comes, should be able to afford relief to customers rather than feel at that moment bound to curtail the facilities which they are giving.

'It is all very well for banks to give facilities to their customers in good times, but a customer looks to his banker for facilities when the pinch comes, and if, when the pinch comes, the bank itself is obliged to draw on its reserves, to call in money, it disturbs all mercantile arrangements, and the bank is really not assisting the country, but is thwarting the interests of the banking and trading communities. If everybody employs money up to the hilt, there will be no unemployed money to come to the rescue in times of crisis. . . I say it is a false system and a dangerous system to rely simply upon the aid the Bank of England can give in a crisis. I hold that the great banking institutions are bound to take their share. *The position of the Bank of England is*

changed. It has still the duty of endeavouring to meet all the necessities of a crisis, . . . but it does not command any longer the same proportionate resources which it commanded in old times. It is unable at this moment, in face of the 600 millions of deposits entrusted to other banks, to take the same position as in times past.'

It is clear that Mr. Goschen felt strongly that what was once a reasonable duty of the Bank of England had become too much for its strength. He admits, he enforces the general principle; the extent of its application is only an important detail.

Mr. Lidderdale, to whose calm and clear-headed courage the happy termination of the Baring crisis was due, has expressed in precise terms his opinion upon the inadequacy of our bank reserves. Speaking at the Mansion House he said, 'The more I see and learn of the complicated and interdependent finance of this country, the more strongly do I feel that the one thing needful is a general recognition of the fact that the maintenance of a sufficient and proper reserve for the national wants *is the concern in their various degrees of all the banks*, and not merely of the Bank of England alone. Until that is recognised, I do not believe any of the improvements which the Chancellor of the Exchequer may introduce in our financial system will be sufficient to produce that financial stability which we all desire. The recognition of that fact goes to the root of financial stability. Until all the financial establishments of the country recognise that the safety of the nation depends upon their collective exertions, and not merely upon the exertions of one institution, it will be useless for us to expect that we shall escape the great fluctuations and occasional periods of danger to which we have too frequently been subject.' I could not put so happily or more strongly the main point of contention, 'the responsibility of all the banks.' It is again a question *How much* loose cash have you? We cannot forget that this is the utterance of a governor of the Bank of England. It may be a policy which is here foreshadowed. When I published¹ my paper 'Bank Reserves, the Central Stock of Gold, and £1 Notes,' in which I endeavoured to make good the contention that each bank should keep its own reserve, I was not aware that some twenty-six years ago, after the crisis of 1866, Mr. Gladstone propounded the same view.

Let me link the three names together, Gladstone, Goschen, and Lidderdale, as agreeing in the policy that each bank should provide its own reserves.

The unanimity in principle leaves only details. What percentage of loose cash shall be held and where shall it be kept?

Mr. Gladstone's opinion we know. In 1890 the promptitude of Mr. Lidderdale and of the Bank of England prevented crisis deepening into a panic of incalculable extent. In discussing the action of the London bankers and of the Bank of England during that anxious time, I did an inadvertent injustice to the Bank of England, which I take

¹ *Transactions of the Manchester Statistical Society*, 1891-1892, pp. 13-75.

this opportunity of acknowledging. I omitted to refer to the costly import of bullion by the Bank of England, which so greatly helped to still the public alarm and to inspire confidence among bankers.

I regret that I did not at the time make a proper recognition of this action of the Bank of England, which was conceived and carried out solely in the public interest. The banking question is evidently one that demands most serious consideration. No one can reasonably impute blame in the matter to the deliberate action of individuals or institutions.

A huge system of banks has grown up, each of them a separate trading body with its own private interests to consider. But the existence of this great system of banks has profoundly modified the mode of payment of debts in this country. We have about 5,000 bank offices in Great Britain and Ireland. *Cash* payments are becoming obsolete. Every payment tends to become a set-off—a matter of clearing—a book transfer. All persons engaged in banking business must have had this fact strongly enforced upon their attention. The payment of the dividend of a great railway company means what? The transmission of 9-10ths of the warrants to bankers for credit of an account. A banking account is now a necessary of life to persons of even very moderate means. Consequently, cash is less and less required in ordinary business transactions; and that which is not wanted, even by bankers, is not kept. We see the result in the increasing attenuation of 'cash in hand' to which Mr. Goschen called attention at Leeds. The evidence is abundant.

Cash payments (coin and notes) in Manchester:

1859	were about	53%	of the total turnover
1864	"	42%	" "
1871	"	32%	" "
1881	"	20%	" "

The use of coin and notes by London banks is merely fractional:

	1864	1881
Coin	·6	·728
Notes	2·6	2·039
Cheques and Bills	96·8	97·233
	<u>100·</u>	<u>100·</u>

The enormous growth of the clearing points in the same direction:

London Clearing total.	Manchester Clearing total
1868 3,425 millions	1873 72 millions
1870 3,914 "	1891 160 "
1880 5,794 "	
1890 7,801 "	

The estimated number of penny *impressed* stamps (principally used for cheques) was in 1857, 13 millions; in 1891, 152 millions.

The contemporary decline of the note circulation in England, both Bank of England and private, when contrasted with the larger liabilities and transactions of the Bank, again illustrates and enforces this point :

Bank of England Circulation :

1844, £20,200,000	1870, £23,300,000
1850, £19,500,000	1880, £26,915,000
1860, £21,200,000	1890 £24,561,000

The cash liabilities of the banks were :

1880, 470 to 480 millions, and in
1890, 600 to 620 ,,

No one for a moment believes that bankers as a body keep a proportionately larger store of cash in their tills or in reserve because their liabilities are larger. The figures of the Bank of England circulation 1880–1890 are decisive on that point, and yet in 1866 a great master of finance had declared an even more favourable state of affairs dangerous to the State. From the published returns of some of the banks we see that they are now keeping more in till and with the Bank of England. The system has grown without its true significance being grasped. Busy men immersed in business cares and anxieties have rarely time or inclination to examine general questions which seem to be theoretical and to have little practical bearing on the fortunes of the business that absorbs them. Times and conditions change, and this generation has witnessed the development and the perfection of a national system of payment by set-off, clearing, transfer, barter. But, when crisis comes, every responsible person becomes keenly alive to the fact that banking deposits are based on a promise to pay *on demand*, *in cash*. The result is an immediate movement to strengthen cash reserves.

Not only is it true that the cheque has elbowed out the note, but the organisation of our banking system has been slowly altering. We have great banks with 120, 140, 160, 170, 200 branches, and with deposits amounting singly to forty millions. Some of the banks hold larger deposits than the Bank of England and extend over half the counties of England. Mr. Goschen pointed out that two banks hold between them nearly eighty millions of deposits. He forcibly said that the Bank of England, with thirty-four millions of deposits, could not protect 600 millions.

We have seen that the Bank of England has eleven branches, that the banking community has nearly 5,000. Does not this go far to prove that the ratio of growth of deposits collected at 5,000 points must be larger than that of deposits collected at eleven points only, and this without taking account of the practice of the Bank

of England not to allow interest? The list that follows gives the number of banks and branches whose clearing work is done through particular London banks, and illustrates the intimate connection of London and the country.

Bank Number.	Offices cleared for.
1	298
2	550
3	172
4	696
5	342
6	201
7	324
8	192
10	184
11	411
12	271

The point of this is that in times of crisis a merely foolish whisper (unfounded though it might be) affecting the credit of any great bank would affect also every bank known to be in business connection with it, and every town where it had a branch. An internal panic, from the nature of our banking organisation, could hardly be localised. There is, if proper provision be made, nothing terrifying in all this. The new organisation of banking, and the lessened use of cash have imposed new responsibilities; and those responsibilities must be wisely and prudently taken up. He who has many branches can be attacked at many points.

What has been wanted has been the accumulation and the presentment of sufficient and weighty evidence to induce the acceptance of responsibility.

Once let the duty be clearly understood, and it will be performed. I can see no reason why cash reserves should not be gradually built up, and in this matter time must be allowed.

To make a great rush would be to disorganise our money market and to render the whole process impracticable. For reserves must be based on the only standard of value known to our laws—gold. To accumulate and to maintain a great store of this precious metal drawn from the markets of the world, could only be safely accomplished by a gradual process. It has been asked, Under what conditions would access be allowed by bankers to their own reserves? In my view, conditions of access are not required. The vital point is to convince bankers that they have to take up responsibility, to look to their own safety, and not to lean on the Bank of England. If that duty is imposed upon bankers, the obligation will be taken up. The American system breaks down just when it is wanted. Because I mentioned 15 per cent. of deposits to keep disengaged, it has been assumed that I favoured the cast-iron American system, 15 per cent.—a percentage, not a policy. I look to the Bank of England practice as the ideal to

be conformed to. The Court of Governors keep disengaged the loose cash which in their judgment should be kept unemployed, having regard alike to the safety and the obligations of the Bank. When crisis and panic come, after exhausting other means of lessening pressure upon the Bank, they do what common sense and prudence alike demand—they use the reserve, subject to maintaining their own safety, and that of their depositors. I think that it would amuse the Court of Governors if they were to have solemnly propounded to them the question of access to their reserve.

No! The resources of a bank, including its reserve, must be left to be used at its discretion. The public concern is that bankers shall take alike the responsibility of keeping and of using reserves. Chancellors' letters have been applied for or have been offered to the Bank because it had exhausted or was on the point of exhausting its own cash in hand. We must measure the effects of a drain upon the Bank of England in past times of crisis by keeping in mind that the reserve has been invariably *used*. In the last three crises the reserve has not run low—only in '47, '57 and '66. The moment for unlocking the door is a question of judgment. There is another evidence affecting the position of our money market and the question of bank reserves which may be sometime forthcoming. I mean a return by the Bank of England, in continuation of those showing at periods the amount of the London bankers' balances, but completed this way:

Other Deposits.	Bankers'	Amount required	Loose Cash kept
	Balances.	for Clearing.	by London Bankers.
Millions.	Millions.	Millions.	Millions.

The Bank of England does not recognise a distinction between the bankers' balances and any other portion of its deposits. In the view of the Bank they are deposit money. On an average, the clearing banks will require to keep a given sum (amount unknown) to meet the clearing balances. That sum they cannot withdraw. It is till money to them, and, as I pointed out in 'Bank Reserves,' is true deposit money to the Bank of England. It is the margin between what is wanted for clearing purposes and the total sum kept that is reserve to the clearing banks. What is that margin? There is an obvious economy in using the Bank of England as the banker to the clearing bankers. Whatever the amount required to meet the clearing is true deposit money to the Bank of England and can be safely used by it. It is an addition to the resources of the money market, without loss to the banks individually or collectively, for they are obliged to keep the money either at the Bank or in their tills.

The enormous capital and reserve of the Bank of England make it safe to entrust it with the custody of this fund. The margin of this fund determines the available *cash* reserves of the banks with the Bank of England. The process of substituting a few great for a multitude

of small banks still goes on. What steps do these great institutions take to ensure their own safety if crisis and panic come upon them? Could one of them, with immense responsibilities, many agencies, many branches, with the money of country bankers in its hands to a large extent, draw a cheque on the Bank of England for 10 per cent. of its liabilities? The Barings were gigantic and under one roof, but our great banks are even more colossal, and cover the country like a spider's web. Touch a point, the web vibrates to the centre; touch the centre, the whole gossamer fabric is agitated. The modern conditions of life have made this true of all trading operations. The telegraph and the newspapers would flash the slightest whisper of discredit to every town.

I repeat that the soundness and prudence of the management of English banks cannot be too strongly proclaimed. It is the necessity for cash reserves that we have to consider. If Mr. Goschen and Mr. Lidderdale meant anything by their grave insistence that each bank should provide its own reserves, and by the reference to perils happily escaped, they meant that, panic once let loose, *cash* to meet the mad rush of unreasoning depositors was not in hand. Even the strongest might have been crippled. A discredited bank without cash reserves would have been a plague-spot in every town where it was established. No sane banker in any affected district would in such a case have dared go on without strengthening himself. To-day the money revolves in a circle. If a great strain did under present circumstances occur, *how* would it be met, where would the *cash* come from? Oh, says one, call in money from the brokers, and sell securities, that is, obtain the power of getting cash from the Bank of England, for there is no great store of loose cash in the country other than the Bank of England reserve.

It is reasonable to remember that an internal panic would be a different and a much more difficult thing to deal with than a Baring crisis. There the spark of fire was stamped out—panic, although feared by the persons highest in responsibility, was averted. But those who successfully grappled with the Baring crisis were gravest in the warnings they uttered. It is obvious prudence for each bank to hold such reserves that it could in its own strength meet and break the first shock of a run. I submit that the fact that all classes bank is an additional reason for laying the foundations of safety deep and broad. The Chancellor's letter issued by Earl Russell and Mr. Gladstone in 1866 significantly alludes to the difference between the then raging crisis and those which had gone before. 'The vital consideration of banking credit does not appear to have been involved in them as it is in the present crisis. Again, the course of affairs was comparatively slow and measured, whereas the shock has in this instance arrived with an intense rapidity, and the opportunity for deliberation is narrowed in proportion.'

I ask, is it not an inevitable result of our refined system of payment

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by cheque and by clearing that the 'vital consideration of banking credit' shall be the central anxiety of our future crises? Adequate and beautifully economical as that system is, it can only be safely administered if it is based on ample cash reserve. We have to establish that fact and to secure the acceptance of a policy which takes the duty of self-help as its corner-stone.

'The only store of loose cash is at the Bank of England.' One is reminded of the parable of the Ten Virgins. Why should it be impossible that the Bank of England should some day complete the story, and in time of crisis shut the door? Self-preservation is a law of nature, and the Bank of England might be called upon for more help than it was able to give.

How much is the question. Let Peel's Act, mono-metallism, bi-metallism, the right of private use, the question of the second reserve stand on one side until this matter is settled. Had Mr. Goschen pressed the question, How much do you require? the service he would thus have rendered would have marked him out as first and most resolute and clearest-viewed of English financiers. The question of quantity, individual self-help, is being shelved. Mr. Goschen's first demand was for an increase in bankers' reserves—the currency proposal came second. Is there not a contradiction and a finely humorous suggestion in elaborating a scheme for a second reserve to stand behind a non-existent first reserve? The old parable of the house built on the sand applies here, but men say, 'There are so many improved ways of putting in foundations now-a-days, and we have such a dry climate; ' nevertheless 'the rain descended and the house fell, and great was the fall thereof.' There is a marked distinction between a second reserve and the reserve kept by a bank in its own possession. A second reserve is an appeal to the national credit in support of individuals, and, it seems to me, should be very warily used. The distinction between the two principles, self-help and national help, ought to be brought out into strong relief. He who keeps his own reserves is, within that limit, master of his own fate. But he who keeps none depends for safety on the judgment of an outside institution, which must in justice to itself weigh up and balance the merits of the cases presented to it for assistance. For we must recollect that, whatever the basis of the currency, the Bank of England, having obtained possession of a limited or an unlimited addition to its notes in the *banking* department, proceeds to deal with them *as banker*. To lend in support of a firm, be it broker, banker, or merchant, is to take a trading risk, and the institution that takes the risk is entitled to judge if it will incur the responsibility.

This would be true if the Government took the unwise course of acting without agent, and selected its own objects of relief. The humiliation of this state of affairs is optional.

It is perhaps desirable that I should try to clear up some misapprehensions which, it seems to me, have almost of necessity occurred in

the discussion of this matter because Mr. Goschen has elected to link together in one scheme a banking question, a currency question, and the question of using the national credit. Mr. Gladstone, Mr. Goschen, and Mr. Lidderdale agree that banks should provide their own reserves. The only basis of currency (legal tenders) recognised by English law is gold. It must, therefore, be evident, unless these three eminent and acute men have strangely overlooked the point, that they are willing to collect gold from the open gold market. Adequate cash reserves might mean the forty millions with which I illustrated the case, and it appears strange that Mr. Goschen, when defending his proposals from the charge that they would drive gold out of the country, has not pointed out the great influx of the precious metal that must occur when the banks adequately respond to his appeal and keep large cash reserves; it being of course understood that the work of collection is spread over a reasonable time.

This attitude of Gladstone, Goschen, and Lidderdale shows that they do not entertain that excessive and tender regard for the international gold market which Professor Foxwell believes to be desirable. Mr. Goschen cannot have overlooked the matter; he wants the banks to keep *more cash*. My contention that the banking question is different from the currency question here receives a new illustration.

I deeply regret that Mr. Goschen has not gone on with his banking policy. It appears to be a case of arrested development, a strong and clear conviction not enforced. If the banks keep reserves, that must mean the maintenance of a large stock of gold. The difficulty was to do by one operation two things—to keep the reserves in the possession of the individual banks, and to show the immense aggregate stock of gold which would result. In France and in Germany there are single great semi-state banks; we with our multitude of banks want to get the same result, of exhibiting a great visible store of gold, and consequently our mode of working must be different. If each bank held gold, the result would not be attained, but if each bank held notes of the Bank of England, the central stock of gold must be shown. This I still consider a merit of my plan. By the simplest means it attains the desired end. The *principle* of holding reserves is conceded. To hold reserves in notes is so simple a method that one who chooses to do it can begin to-morrow and do his share without any fuss about the matter. Viewing the matter in this light I need hardly say that I had not the intention, which Professor Foxwell attributed to me, of raising the currency question. Peel's Act was not in my mind. I have all through kept to the banking question, and was anxious to avoid the introduction of King Charles's head in the shape of the Act of 1844.

As part of our English banking problem, we have to remember that in France there is no second reserve and no special provision for the emission of notes under panic conditions. It appears to me that we should approach that comfortable position, if each bank took up its

responsibilities in the matter of reserves. When I recommended that the notes of the Bank of England should be secured specially on the bullion and the securities in the Issue Department, it was not with a view to Peel's Act, but because I considered that, if the notes (legal tenders) were to be held by bankers as reserves, there ought not to be a doubt that they were specially provided for; but the point is not a great one.

Let me, even at the risk of being compared to the importunate widow, say again that I am attempting an examination of the banking, not of the currency question. Let specialists debate the basis of international money, let bankers keep sufficient loose cash. Plain business men, to whom the question of banking reserves comes as a matter of practical business stability, may well afford to stand out of that discussion.

Is there, or is there not, a growing disproportion between the size of the Bank of England and of the banking community? Can the less protect the greater? Have the great banks a duty? Is the organisation of our banking system driving legal tenders out of daily use, and does the obligation to pay in cash on demand remain? Are the practical views of men like Mr. Gladstone, Mr. Goschen, and Mr. Lidderdale worth consideration? These and kindred considerations crowd upon the mind. Why do we find that banks greater in size than the Bank of England, with branches in every town, are not appealed to in time of crisis to help to relieve public distress? It is not an affair of art magic, it is a matter of administration. The answer is to be found in the different ways in which the means of the institutions are employed. It is not difficult to see that, once the movement to establish reserves is firmly rooted, it must grow by mere pressure of the principle of competition to stand well with the public. There is a silent moral pressure in publicity which cannot be overestimated. There is one thing more: Mr. Lidderdale has spoken with a clearness which leaves nothing to be desired; is it too much to expect that the Bank of England shall formally declare its policy? This is no matter for jealousies and misunderstandings.

The Bank is not large enough, let it formally disavow responsibility. We have then clear ground to work upon. I repeat here an opinion I have elsewhere expressed, that the Government, on the day when it interferes 'in times of crisis, must act by an acknowledged agent, and the Bank of England already acts, and has, with conspicuous success in the past, acted in that capacity.' But I believe that it would be for the general interest of bankers, and certainly in the interest of the whole nation, that each bank should so protect itself in the matter of reserves that an appeal to national assistance should be a contingency not reckoned upon as coming within the ordinary means of relief. I ask myself, suppose that those responsible for the safety of a great bank were, under present conditions, required suddenly to repay 10 per cent. of their deposits, four or five millions, what would they do?

And I answer myself, only by disorganising the most sensitive money market the world has seen, and in that answer the system stands condemned.

G. H. POWNALL

WEAVERS OF BRADFORD. THEIR WORK AND WAGES.

THE evidence given before the Royal Commission on Labour with reference to the condition of the Textile Industries in the West Riding of Yorkshire produced a large amount of contradictory statements. Nor is it surprising that such should have been the case. For both masters and men appeared as witnesses, and, while the Chambers of Commerce appointed as their delegates some large employers of labour conspicuous, not only for the size of their businesses but also for the smoothness of working with which those businesses were carried on, the men on the other hand, as officials of the Trades Unions, naturally spoke as if the normal representative mill was the one where existed the most abuses and where the position of the operative was at its worst. This essay is an attempt to set forth, from an uninterested point of view, the results of some enquiries made at Bradford during last Easter about the general condition of the weavers in the district, and makes no pretence at being anything but a bare narration of fact.

To plunge at once 'in medias res,' I heard much discussion and complaint about what is called 'broken time.' So long as wages are paid by the piece, it is obvious that a weaver, who is only allowed to work a certain number of hours per day, suffers by any circumstances which make her loom stand idle. Now a weaver may be said to be working full time when in a week her loom only stands because of the inevitable stoppages which are incident to the occupation.

The loom has to stand—

- (1.) While the warp is being put on for the new piece.
- (2.) While it is being tuned.
- (3.) Through any accidental break-down of any part of the machinery.

But broken time occurs when business is depressed and trade is slack. If, for example, the manufacturer has just finished executing a large order, and finds that he has not sufficient work to give employment to all his looms, instead of discharging some of his hands, he will prefer to find them all a little work. Thus his weavers who mind two looms in busy times will now only have one running. All have employment, but there is of course a fall of wages earned of 50 per cent. Again, if warps of different lengths are put on the two looms that a weaver is engaged upon, it is probable that one of them will run out before the other, and thus, while finishing the one, the other is standing idle.

Broken time, therefore, cannot with any fairness be regarded as a grievance. It is a result that inevitably arises from the nature of the industry, and payment by piecework. Still there is some ground of