The Control of Liquidity and the Radcliffe Committee

In the March 1960 issue of this review, A. Gambino gave an interesting account of factors determining the levels of bank liquidity, money and quasi-money in Italy. ("The Control of Liquidity in Italy"). However, in his opening remarks, Prof. Gambino linked his comments with the Radcliffe Committee's view that "it is the liquidity of the economy rather than the supply of money that the authorities should seek to affect by their use of monetary measures". Unfortunately the author's reference to the Radcliffe Committee's conclusion is not quite appropriate, and it implies a rather misleading picture of the Committee's thesis. The concept of liquidity used by the Committee is not the same as that explored by Prof. Gambino in the remainder of his article.

Gambino's starting-point is that the liquidity of the public does not consist wholly of money, in the sense of coin, bank notes and demand deposits. It also includes quasi-money, "understood as an asset capable of being rapidly changed into money without appreciable loss" (1). He views liquidity as a stock or supply of assets, and offers fairly precise measures of the liquidity available to both the public and the banking system in Italy.

The Radcliffe Committee also took account of both money and quasi-money in their survey of liquidity. This, however, was not the point of major difference between their approach and the traditional one, and their concept of liquidity included certain other elements that fall outside the scope of Gambino's article. Although (as the Committee's critics have emphasized) they did not define liquidity very precisely, it is fairly clear that they used the term to refer to a state or condition, not to a definite body of assets. They gave particular attention to "the case or difficulty encountered by spenders in their efforts to raise money", and treated this as an important constituent of liquidity (2). Moreover, when they did turn their attention to liquid assets they were concerned not only with the assets of the public and the ban-

those, but they were more impressed by the various sources of borrowed funds (including the capital market) that are available in the economy. They were impressed, too, by the extent to which one source of borrowed funds can be substituted for another, so that if bank credit is unavailable a frustrated borrower may be able to obtain credit in other ways, e.g. by long-term borrowing on mortgage from an insurance company, by the issue of securities, or on hire-purchase. They argued that a loan that does not add to the supply of money gives just as great a stimulus to spending as does a loan made by a bank.

A large part of the Committee's report was therefore taken up firstly with a description of the activities of the complete range of financial institutions in Britain, and secondly with a discussion of the methods that might be used to influence the institutions' ability and willingness to lend. This discussion included detailed comments on the control of bank liquidity and bank lending, but the Committee stated very firmly that they gave special attention to the banks not because banks create money but because "they are the biggest lenders at the shortest (most liquid) end of the range of credit markets" (6). The Committee considered it hardly less important to influence the behaviour of other institutions that might serve as alternative suppliers of credit. For technical reasons they concluded that in normal circumstances debt management, and in times of emergency a set of direct controls, would be the most effective measures for the purpose. The tendency of their argument was to allow central banking policy a relatively minor role in monetary policy and the monetary situation as a whole.

It should now be clear that the subject-matter of Gambino's article is very different from the "liquidity" that the Radcliffe Committee regarded as the proper concern of the monetary authorities. For Prof. Gambino liquidity is a stock of assets, but for the Committee it was also access to a flow of funds from a variety of sources. A possible link between the two is the influence of the size of this particular stock of assets on the lending policies of financial institutions other than the banks. As it happened, the Committee devoted little or no space to this question. They assumed that willingness to lend varies mainly with changes in the values of certain of the capital assets held by the institutions, and that capital values are determined especially by

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(6) ibid., paragraph 304, cf. paragraph 395.