

Conservation of Credit for War Purposes

Banks Are Urged to Discriminate on Advancement of Credits to Loans to Facilitate Production or Distribution.

We are in receipt of a pamphlet containing a circular letter from the President of the Canadian Bankers' Association, Mr. E. L. Pease, Managing Director of the Royal Bank of Canada to the general managers of all the chartered banks in Canada on the subject of "Conservation of Banking Credits for the Purposes of the War," which is deserving of the thoughtful consideration of business men and all those who take an interest in our economic well-being as well as efficiency in the financial administration of war.

The letter is in part as follows:

The Federal Reserve Board at Washington has recently issued a statement with regard to the necessity for the curtailment and conservation of banking credits, due to the exigencies of the war, which is entirely applicable to conditions in Canada. The Canadian banks in co-operation with the Minister of Finance have been, it is true, for some time past endeavoring to bring about the results aimed at by the Federal Reserve Board; but the statement of that Board now issued so clearly and comprehensively, and on such practical lines, sets out the duty of bankers in the present emergency that a fresh consideration and a careful observance by Canadian bankers of these directions will materially aid in meeting the imperative obligations which the war has thrust upon us.

Adapting to Canadian conditions the arguments and recommendations of the Federal Board, your President respectfully commends to your earnest consideration the following:—

It is clear that if the war requirements of the Government are to be financed without undue expansion of banking credits, not only must there be some reduction of existing credits, but there will have to be applied a rigid check upon the further expansion of credit in directions not clearly essential for the prosecution of the war and for the health and necessary comfort of the people. It is no more possible to superimpose upon the volume of pre-war credits the immense volume of additional credit required by the Government for war purposes than to superimpose upon the volume of pre-war production of goods the immense volume of additional goods required by the Government to prosecute the war. Our problem is to convert less essential into more essential credit, and to convert less essential into more essential production and distribution of goods. The saving of credit and money goes hand in hand with the saving of labour and materials in the programme of adjusting the business of the country to a war basis, and our best hope of avoiding competition between the Government and its citizens for credit, money, labour and materials, which can only result in credit and price inflation and higher costs of living, is saving.

As far as expenditures are financed by the sale of new securities they are scrutinized under the direction of the Minister of Finance. As trustee of the individual banking credit of the country, however, the bankers are charged with the duty of studying and understanding that programme, in order that each and every one may in turn educate his borrowers and the people of his community to the necessity of saving credit as well as food and other materials and may thereby conserve the credit of his bank for the use of the Government as far as may be practicable. It will be clear to bankers, also, that credit conservation is necessary not only for Government financing, but also for the prosecution and preservation of the banks themselves, individually and collectively, since undue expansion of bank credits leads inevitably to unsafe and unsound economic conditions, and no stone should be left unturned to keep our banking institutions sound and strong.

It is not the purpose to suggest the specific ways in which credit should be conserved, or unnecessary expendi-

tures curtailed; each banker must determine this for himself. The subject can only be discussed here in general terms, with emphasis on the necessity that while credit conservation should be undertaken promptly it should be carried out gradually, with reasonable discretion and with the least possible avoidable embarrassment to the business of individuals and industries. Proper education of borrowers and customers to the needs of the situation will accomplish far more than abrupt discrimination or pressure.

In the absence of any official classification of the more essential and the less essential things and enterprises it will be necessary for each banker in determining how he may do his share in the conservation of credit to use his own judgment. There seems to be, however, two clearly defined groups of loans:

- (a) Loans to facilitate production or distribution;
- (b) Loans for non-productive or non-distributive purposes.

Loans for non-productive or non-distributive purposes are usually loans for non-essential purposes. The following are types of this class of loan:

Loans for purchasing or carrying property, whether real estate or personal securities;

Loans for additions to or improvements of property not used in production or distribution;

Loans to provinces or municipalities for improvements.

By inquiring the purpose for which each new loan is required, and declining wherever practicable to grant loans of these classes, and by gradually causing existing loans of these classes to be reduced or eliminated, bankers could conserve credit without causing hardship and also give many people an impetus to save at a time when saving is of vital importance to Canada. But discretion must be used in not forcing borrowers to reduce loans to an extent that is unreasonable or would cause avoidable hardship or embarrassment; much can be accomplished by sound advice and the exertion of moral pressure.

The three main groups of borrowers for productive or distributive purposes are farmers, manufacturers, and merchants.

1. Farmers.—The farmers are being asked to produce more than ever before and loans for productive purposes must have the right of way. But the kind of loans which should be discouraged or declined are:

- (a) Loans for carrying over grain, cattle or other marketable products in the hope of obtaining higher prices and loans for the acquisition of additional property, unless the area under production is to be increased thereby and immediate results may be expected.
- (b) Loans for any construction not necessary to the productiveness of the farm within the year; and
- (c) Loans for the purchase of articles of comfort and luxury.

In sections where farming profits have been large an endeavor should be made to induce farmers to apply a good portion of them to the reduction of long-standing loans or to the financing of their seasonal requirements, thereby conserving bank credit.

2. Manufacturers.—Manufacturers who are making large profits should be urged to reduce or extinguish their debts rather than increase capacity and output unless the industry is one which is clearly necessary to the prosecution of the war. All manufacturers should be urged to carry as small inventories as practicable; to eliminate from their products elements which add to its cost but not to its intrinsic value and serviceability, or which are introduced simply for fashion or appearance; and to avoid as far as practicable introducing new styles during the period of the war.

Manufacturers whose product is not clearly required either for the prosecution of the war, or to maintain the