HOW THE PROPOSED GOLD RESERVE WOULD ACT IN TIMES OF PANIC

Leading Banks Could Deposit Millions of Gold and Loans Could be Made to any Institutions in Distress

BY H. M. P. ECKARDT.

In the discussion of the good and bad points of the plan for the creation of the central gold reserves against bank note issues, which forms a part of the new Bank Act, little or nothing has been said about the part which may be played by the reserves during a period of panic.

While it is true that Canada has had no banking panic for a generation, that fact cannot be taken as conclusive evidence that panics belong altogether to the dead past so far as we are concerned.

Notwithstanding the great size and strength of our principal banks, we may take it as a practical certainty that the Canadian banking system will experience, at sundry times in the future, conditions which produce panics in other lands.

Whether or not those conditions produce a panic in the Dominion depends on how they are met.

It might be remarked in this connection, with reference to the general managers, that the generation of older bankers is slowly passing away.

Only a few of the banks now are under the charge of men who were at the helm when the country had to pass through really troubled and stormy times.

The new men will undoubtedly experience a testing time sooner or later; and, while it may reasonably be expected that they will uphold the traditions and good name of the Canadian service, we have to remember that the bank liabilities of the present day are enormous.

Five Times As Many Liabilities.

The liabilities ot to-day are about five times as great as the bank liabilities of 20 and 25 years ago.

In a grave or serious crisis a young banker who had experienced nothing but comparatively fair weather might well be terrified by the tremendous mass of liabilities confronting him. And if he and one or two of his confreres lose their heads, you have a state of affairs making for a panic.

At any rate it is worth while to study the plan for the creation of the central gold reserves with the object of discovering whether it will help or hamper the bankers while they are struggling with a crisis.

A banking crisis is usually characterized by heavy liquidation of bank liabilities. Creditors of certain banks desire to convert their claims into cash or to transfer their funds to reputed stronger institutions.

In Canada the note issues of the banks are so strongly based that it is almost impossible to conceive a state of affairs in which the issues of an individual bank would not be freely taken by other banks and the public.

Owing to the fact that the notes of each individual bank are practically guaranteed by the associated banks, it is altogether likely that the depositors in a suspected or discredited bank would be ready to take its notes in settlement of their deposit claims.

Need of An Acceptable Medium.

So we may presume that in a Canadian crisis distrust would affect merely the deposits and other credit instruments apart from the notes.

If several banks were subject to runs of depositors, there would be urgent need of a medium aceptable to the depositors through which it could make its payments.

What are the methods of payment available under the banking laws as at present existing.

The bank might use its notes up to the limits of its authorized issue.

If the crisis developed anywhere between the 1st September and the end of the following February, the so-called emergency issues would be available. They would furnish the means of making large payments. With the total of paid up capital at $111,000,000, and the total of the rests at $106,000,000, something over $30,000,000 of excess issue could be made.

At the highest point in November about $9,000,000 of the excess issues were outstanding. At that time a balance of $21,000,000 would be available. That would suffice to pay off a large amount of deposits, as a considerable amount of the notes received by depositors would go at once into other stronger banks, and would be returned to the issuing banks next day through the clearing house.

If there was hoarding the available supply of notes would be used up more quickly.

But if the crisis developed after February and before September, these excess issues would not be available.

The bank note issues in that period have been near the authorized limit in the past two years. Therefore a further use of bank notes would not be possible to any extent.

The new Dominion "fives," Dominion "fours," "ones" and "twos" could be paid out, but it is a question whether they could be secured in sufficient amounts to cope with a first-class crisis. If not, grave consequences might ensue.

Use Resources From New York.

The establishment of the new central reserves and the granting to the banks of the right of issue against deposits of gold made therein, improves the situation notably.

Suppose a disturbance of a serious nature materialized during the early summer and depositors commenced to run on several banks, at the head offices and at branches.

Four or five of the leading banks could bring in if necessary thirty or forty millions from New York and deposit a part or all in the central reserve.

They would then be empowered to issue their own notes to that amount. Loans could be made to such of the beleaguered banks as could provide proper security.

The loans would be in the form of bank notes which would be available for paying the depositors.

The branches that were besieged could get supplies of notes from the nearest branches of the lending banks. In all probability these notes could be used again and again—for many of them would come back to the issuing banks in the form of new deposits.

So an extra issue power of $30,000,000 or $40,000,000 thus acquired by half a dozen of the stronger banks would suffice to make payments of thrice or four times that amount of deposits.

Keep Large Supplies of Notes.

Again, the fact that the beleaguered banks were paying out the notes of the Bank of Montreal, the Commerce, the Royal, etc., in large amounts, would probably serve as striking demonstration of the fact that these powerful institutions were according their support; and it should help to restore confidence.

With the new central reserve plan in operation, it seems that there need never be a shortage of the circulating medium required for meeting the extraordinary demands thus created by a panic or crisis.

Of course, in order to get the full benefit from the change in the law, the great banks would have to keep on hand, at all times, a large reserve supply of their own notes, ready for issue in an emergency.

POSSIBILITIES OF INVESTMENT

Is such a book practical and of some specific use? This is one of the first questions asked about a book dealing with investment matters. Moody's "How to Invest Money Wisely" is one of the small number to which a positive reply can be given. The plan of the book is based on the ideas of diversified investing of which the author has been making a careful study in his work as financial adviser and analyst.

The divisions are under the captions, Diversifying Investments, Investing for Profit, Classes of Investments. The growth of the field for investment is shown, "Where in 1885 there were but few fields in which the careful investor could safely place his funds with only half a dozen types of high-class security issues, to-day there are many dozens of such."

With such a wide field and such opportunities it is interesting to note that Mr. Moody in his introduction states, "The principles in this volume have been adopted by institutions and many individuals with satisfaction and profit.

Such being so there is reason to believe that any investor who acquires the book, and they should be many, will avoid dangers and pitfalls, and obtain holdings of a satisfactory character by adopting the methods advocated.

How to Invest Money Wisely. John Moody, $2. J. Moody, New York.

The number of directors of the Kaministiquia Power Company has been reduced from seven to six.