

Canadian Merchants and Par Collections

The New Plan of Payment for the Collection of Remitted Cheques introduced by United States Banks, does not, in the opinion of the author, offer any advantages over the Canadian Plan.

By H. M. P. ECKARDT

As there has been some discussion in our press regarding the probability of Canada's adoption of the American plan of par collection of remitted cheques, it is worth while to explain how the merchants and general public in the United States are affected by the change and to discuss the applicability of the scheme to ourselves. It should be noted at the outset that our neighbors have experienced some difficulty in getting the cheque collection feature of their new banking law into smooth working order. The originators of the reserve banks undoubtedly had in view the practical elimination of the exchange charge on remitted cheques and as a step in this direction an experimental collection system was inaugurated soon after the reserve banks were organized. The experimental plan consisted in the acceptance at par by the federal reserve bank of each district from its member banks, of all cheques drawn on member banks in the district. On receipt of the items the reserve banks charged them at once to the accounts of the respective drawee banks and forwarded them to their destinations.

This could be done only in cases of member banks which had signified their willingness to join the collection system. Apparently only about one-fifth of the national banks in the several districts joined, and many of those joining found the scheme unsatisfactory. One of the chief complaints was that a member bank had not sufficient control over its balance in the reserve bank when the latter followed the practice of charging up all cheques drawn on the depositing bank before the depositing bank had any opportunity of seeing them. For example a bank located at an interior town could not tell what cheques its customers would draw upon it from day to day and it happened that presentation of large cheques at the reserve bank frequently wiped out the balance. As remarked by an officer of the New York reserve bank, "there has seldom been a day when from two to ten banks have not had their accounts wiped out and substantially overdrawn by the operation of the immediate debit and credit system." So dissatisfaction followed; and in short the scheme broke down.

The new plan has a much wider scope. It covers practically the whole country. That is to say the country bank in the New York district, being a member bank with account in the Federal Reserve Bank of New York, say, sends in for deposits at par cheques drawn on national and state banks in the New York or any other reserve district providing they are drawn on a point at which any of the 12 reserve banks can collect at par. As revised, the scheme provides for the reserve bank receiving the items, and giving instant credit therefore, but it should be observed that the credit accorded is limited. In case of a bank depositing a bunch of cheques aggregating \$4,000, the items being drawn on points all over the country, the reserve bank credits \$4,000 in a special account, but the money cannot be withdrawn, nor can it count as reserve until the several cheques have had time to reach their respective destinations. As no interest is paid by the reserve banks on balances, it will be seen that this privilege of country wide par collections is not so valuable to the depositing banks in some respects as was the other plan. In this matter of collecting remitted cheques the principal expense or cost lies in the interest allowance on the cash advanced from date of receipt of the cheque to date on which settlement is received from drawee bank. The first plan laid this interest cost on the drawee bank; the second places it on the depositing bank. It should be mentioned also that the reserve bank receiving cheques on deposit in this way, sends the items on its own district to the drawee banks and these drawee banks are expected to remit at par. They can ship currency if they wish — the reserve bank bearing the express or postal charges.

The American bankers hope the amended plan will work satisfactorily. Although it makes further important concessions to the country bankers, whose opposition wrecked the first plan, it still deprives the country banker of the exchange or commission

he has been accustomed to charge the city bank on cheques remitted for collection and it will be well to wait and see whether the country bankers fall in line. So far as the business men are concerned, they will perhaps benefit to some extent by the innovation, but it should be remembered that in a great many American cities and towns the banks have been all along accustomed to take remitted cheques at par from their customers and the banks themselves bore the loss involved in collecting the items. By way of reimbursement they in many cases compelled the customers to carry heavy balances in current account free of interest. This compulsion will no doubt be even more in evidence under the new plan. For example, a bank which turned in for deposit to the local reserve bank remitted cheques which resulted in having continuously \$200,000 "floating" or in process of collection, would have to keep \$200,000 of its funds locked up in the special account at the reserve bank all the time. To offset this lock-up it would require the customers who deposit the cheques to carry free balances fully covering the amount of outstanding remitted cheques received from them.

These balances carried by depositors would merely suffice to cover the cost of taking their remitted cheques at par. They would be obliged to carry further sums in their accounts to offset the general expense incidental to the operation of their current accounts. Another point is that the reserve banks are to have a careful accounting of the expenses

connected with collection of the cheques—postage, stationery, clerk hire, express charges refunded to country banks, etc.—and this is to be apportioned and charged to the member banks using the system. This charge again would have a tendency to augment the compulsory balances carried by customers.

The foregoing illustrations give some idea of the manner in which merchants and other customers of banks in the United States will be required to pay for the privilege of free collection of cheques on other points. It is easy to see that the system differs materially from the practice in this country. Our system is much simpler. Here the depositor simply pays a fee in accordance with the value of the service performed, and he is not under compulsion to keep a fixed balance at the bank, which in case of an American customer means borrowing that much more from the bank than would otherwise be needed. Some of the American papers appear to think the people have a natural right to have their cheques, no matter on what distant point they may be drawn, collected by banks at par. A little consideration shows that this is nonsense. Strictly speaking the citizen has no more right to expect the bank to collect foreign cheques at par than to have the express company or the railway transport his goods or his person without charge. The act of collecting money on a cheque or sight draft at a far away point involves expense and the value of the service is much enhanced when the collector advances the money at once on receipt of the cheque, and waits a week or so to get back his money. If banks can do this work at less real cost than other parties, and if in a multitude of transactions there are a considerable number which offset each other, requiring no actual movement of cash, that is because the banking institutions have gone to the expense of building up a wonderful organization or system.

We have seen that the customers of the American banks pay, indirectly, for the collection of remitted cheques, even under the new plan; and it is open to question whether they do not pay as much as our Canadian merchants pay. The Canadian, however, knows exactly what the service costs him, while the American in numerous instances does not.

Is Progress Inevitable?

By J. W. MACMILLAN, D.D.

People who live with the roar of Niagara continually in their ears are disturbed by the silence when they journey from home. To the man who has spent a lifetime in a village, the city seems queer, as does the village to the habitue of cities. The range of anyone's personal experience is narrow, but the ideas and customs which are large enough to cover that narrow tract seem to him as big as the world. They are as big as his world.

Thus such ideas and customs attain to great authority. Because they are uninterrupted they appear to be perpetual. Because they are unchallenged they seem inevitable. And, so idolatrous is mankind, that for lack of sceptical criticism they become sacred.

So it has become with the idea of progress. It seems a natural and inevitable thing. It seems a thing which is bound to come about, the certain and unavoidable destiny of the race.

"Progressives" and "Unprogressives."

No epithet of praise seems more fit and desirable for a man, or a city, or a nation than "progressive." No epithet of blame is more broadly condemnatory than "unprogressive."

The superficial aspects of human life as it is lived amongst us, foster this illusion.

We live in a clattering, dazzling, bewildering milieu of mechanical conveniences. The new machinery of our age, which has made such conquests of time and space and increased the comforts of the world so handsomely, begets the impression that we are striding on to real greatness. We forget to observe how trifling a part in the real drama of life is played by the mechanical. As George Bernard Shaw said, "The chauffeur of a British Cabinet Minister is not necessarily a better man than Caesar's charioteer."

We have all been indoctrinated with the dogma of evolution and feel ourselves ticketed on a wondrous voyage from protoplasm to some ultimate magnificence. The nature of the magnificence we do not know, but we guess from the analogy of the past that it will be beyond our wildest hopes. Thus progress seems assured by fate, and we, re-

lieved from responsibility, are set free to indulge our dreams.

This happy confidence in the future is expressed in our popular literature. Tragedy is barred. Melodrama is everywhere. The novels which sell by the thousands and the plays which pack the theatres all end as we wish them to. The strain and torture of life is always overcome and the handsome hero folds his pretty bride in his arms.

Liberty and Kultur.

No doubt a large part of the current faith of our people in the success of the Allies is founded on this faith in progress. Are we not fighting for the liberties of the world? And the Germans and Austrians reach a similar faith in the same way. For are they not fighting for kultur? And kultur means as much to them as liberty does to us.

It gives us something of a shock to discover how small a portion of the earth's population is or ever has been in love with progress. Walter Bagehot, in his *Physics and Politics*, says: "Our habitual instructors, our ordinary conversation, our inevitable and ineradicable prejudices, tend to make us think that 'Progress' is the normal fact in human society, a fact which we should expect to see, a fact which we should be surprised if we did not see. But history refutes this. The ancients had no conception of progress; they did not so much as reject the idea; they did not even entertain the idea. Oriental nations are just the same now. Since history began they have been always what they are. Savages, again, do not improve; they hardly seem to have a basis on which to build, much less the material to put up anything worth having. Only a few nations, and those of European origin, advance; and yet these think—seem irresistibly compelled to think—such advance to be inevitable, natural, and eternal."

Hostility to Reform.

Sir Henry Maine adds the great authority of his name to this statement, saying: "Vast populations, some of them with a civilization considerable but peculiar, detest that which in the language of the West would be called reform. . . . To the fact that the enthusiasm for change is comparatively rare

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