

LONDON BANKERS AND THE GOLD MOVEMENT.

The large transfers of gold now being made from Europe to America invite an examination of the mechanism by which they are effected. It is well known, in a general way, how when foreign exchange quotations, at New York for example, fall till a certain point, called the gold import point, is reached, that gold shipments from abroad are arranged for; and how in the same manner, when quotations rise till the gold export point is reached, that an outward flow of gold is started. Also it is tolerably plain what causes exchange to fall and what causes it to rise. Nearly every financial student knows when bills on London are cheap that there is for some reason or other a greater flow of capital from London to New York than in the contrary direction. Generally this results from the fact that what Europe has to pay America for goods, services, investments, etc., is more than what America has to pay Europe for the same purposes. In other words the balance of trade, visible and invisible, is against Europe and in favour of America.

In the present instance it is generally understood that the gold imports are the result mainly of heavy loans negotiated in London by New York bankers. But even so the fact does not upset the statement that gold imports are the result of a balance of trade favourable to America—for the loans which the London bankers are making to the New York banks constitute in reality a purchase of bills, or rather of debts which the bills represent, and these bills or debts are included among the invisible articles of international commerce. A leading New York daily thus quotes the "London Outlook," the financial writer for which is a well known member of the London Stock Exchange. "To-day there is no more shuffling of the shoulders or sarcastic smiling in bank parlors at mention of the New York gold drain. 'Finance bills,' the favourite medium with which New York pays for its gold purchases, no longer find the ready acceptance they used to do. Lombard street has ceased to be proud of the fact that it is financing \$300,000,000 more or less of American paper. Of course, the great mass of that paper may be sound and legitimate. So far as it has arisen out of commercial and financial business with substantial values behind it, it should be welcome. But the alloy of 'finance bills' is undoubtedly large, and New York needs no encouragement whatever to keep on increasing it."

There are many different kinds of bills of exchange. Among those most esteemed are the bills drawn against shipments of staple products with shipping documents attached. One of the reasons these bills are so highly regarded is that they bear on their faces eminently satisfactory evidence that they represent genuine commercial transactions, another is that they give the title to the articles of

commerce that form the bases of the transactions, and in the event of dishonor the holders can reimburse themselves at once, if necessary, without having to make demand on guarantors or endorsers. Another highly esteemed bill is that purchased by a mercantile debtor from a strong bank on this side drawn on the bank's European correspondent and designed for the liquidation of a claim for goods purchased abroad. These bills usually bear, when presented for discount, several names of the very highest credit.

The foreign exchange business in New York is conducted by several of the big banks there and by what are called foreign bankers. Among these latter are the agencies of our own Canadian banks. Five of our banks rank among the important dealers in exchange. They buy produce bills, as described above, bankers bills, and also, perhaps, finance bills when issued by very strong institutions, and they draw their own bills on London, selling them to people who wish to remit funds there, or to draw down an accumulating balance in London to employ the funds on this side, or they may draw on London when they have no credit balance there in order to enable them to put out funds at call or time in New York at very high rates. When a clean bill (a bill to which no documents are attached) is drawn on demand against credit balances held by London bankers, the transaction is simplicity itself, being on the same basis as the drawing of a cheque by a depositor who has plenty of funds to meet it.

But there are clean bills drawn at 30, 60 and 90 days, and the London bank on which they are drawn are called upon to accept them, becoming primarily liable on them, but they cannot charge them against the drawers' balances, or hold back their funds till the bill becomes due. The London bank, immediately it has accepted such a bill, treats it as a liability (or advance) made to the drawer of the bill. The approved custom is for the banks or financial houses on this side who wish to make a business of drawing bills on London, to deposit with a strong London bank securities sufficient to cover the total amount of unmatured drawings outstanding. Most of our banks own several millions of high class securities. As these are more or less fixed investments it is no inconvenience to have a portion of them lodged with a great London bank which will undertake, whenever asked to do so, to accept large drawings by our banks. Against bills of this class, behind which ample security rests, not much objection can be raised, particularly as the drawing banks very often hold contracts from strong houses who agree to deliver on certain dates large amounts of exchange drawn against produce shipments. The class of American bill against which the London critics are protesting is that drawn by New York banks on London with the purpose of enabling them to finance a big stock speculation at a dangerous time. These bills, if secured at all, are likely to be covered by deposit of the speculative stocks most active in the speculation.