The Chronicle

Banking, Insurance and Finance

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BANKERS AND THE STRINGENCY.

There has been considerable comment, this side the ocean, on the flurry that took place in financial London about a month ago—on 17th August. It furnishes an extremely valuable lesson on the effect which an attack of "nerves" can have in bringing about a monetary panic. The New York Evening Post's account of the affair is concise and clear. "Apparently some one with a heavy load of undigested securities was on the verge of trouble; the rumours frightened the London bankers. They started a policy of refusing credit right and left. What seems to have saved Lombard Street from its spasm of fright was the Bank of England's action. That institution openly granted all the loans refused at the private banks, though it had to add $20,000,000 to its own burden of loans in doing it. Meantime Lombard street, cooling down, took care of the weak account."

In this instance the question of cash reserves was not, apparently, the prime cause of the disturbance. The banks were running as strong as they were in the habit of running in cash and balances, but being under an attack of "nerves," they were afraid, while it lasted, to use their resources in the accustomed manner. When this happens the result is nearly always the same—business men are forced to take desperate measures in the effort to get the banking accommodation necessary to enable them to meet their maturing obligations and to carry on their business.

The best authorities on banking are agreed that the time for the banks generally to adopt repressive measures is when speculation is being overdone. When their measures have brought about a cessation of, or a great reduction in, the speculative activity, and when the commercial and financial world has become apprehensive and fearful of the future, for the banks to persist too strongly in the policy of curtailing credit, is quite often to propel the country towards a serious crisis. This is a circumstance well known to our strongest bankers. And, if the truth were known, it would perhaps be found that they are, at the present time, doing what they may to keep their brother-bankers' heads sane and cool. Those business men who have not been over-trading or engaging themselves in wild speculations should have their wonted accommodation along with the assurance that it will be forthcoming right along. If numerous instances come to their ears of men in circumstances like their own being unable to get the needed credits, they will be very apt to intensify the stringency by themselves trying to borrow more than they actually need, so as to fortify themselves against an uncertain future.

A very substantial strengthening has taken place in the position of the Canadian banks in the past four months. Speculation of all kinds has been checked, the business men, municipalities, and other borrowers have been inspired with caution (many have grown apprehensive), due preparations have been made for moving the crops; and 'tis quite possible that before very long the money market will lose a great deal of its tautness. The bankers, too, have been somewhat apprehensive about the future. The unexpected failure of one bank and the revelations of large bad debts in another have get on their nerves. Holding pretty much the usual amount of cash they yet have not felt free, in all cases, to use it as they have been accustomed to. The usual outcome of a situation like that is for things to run along in the normal manner for a time and then for the bankers generally to find that the occasion was no longer present for them to hold on to their resources so tightly. By this time the killing off of speculation has also greatly reduced the demand for bank loans; and so there is sometimes seen a sudden drop in interest rates and an all-round loosening up.

It will be interesting to investigate the position of the banks so as to learn what the actual improvement in strength has been. In doing this all the thirty-five banks will be taken as a unit; the entries and transactions between the banks themselves will be eliminated. This mode of calculating their reserves is very drastic. It subjects them to a severer test than is usually applied. Let us see how they appear.

LIABILITIES.	31 July 1907.
Dominion Government deposits	$ 6,263,707
Provincial Government deposits	11,487,652
Deposits of the public, "demand"	166,352,146
Deposits of the public, "notice"	423,121,386
Deposits elsewhere than in Canada	58,421,023
Total deposits	$ 665,645,914
Note circulation	72,942,781
	$ 738,588,695
*Less notes and cheques other Canadian banks held	28,432,037
Net liability	$ 710,156,658

*This item is deducted because it represents obligations of the banks held by themselves.

AVAILABLE RESERVE.	
Specie and legals	$ 70,932,512
Net foreign bank balances	6,188,757
Foreign call loans	60,609,114
	137,730,383
Per cent of liability	19.39