THE MONETARY TIMES, AND TRADE REVIEW.

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THE PREVAILING MONETARY STRINGENCY.

It is only a few weeks since we were pointing out that the discounts of the Banks had been steadily and regularly increasing for some years back, and that they had now reached a point which should excite the serious attention of all concerned in financial matters. Since then there has been developed one of the sharpest spasms of monetary stringency that the country has known for some time back. The uneasiness of the position has been aggravated by the fact that in more than one instance—taking the whole of Canada into the account—certain banking institutions had increased their discount accommodation to such an extent as to run down their reserves to a dangerously low point. Montreal was kept in a state of suspense nearly all last week, owing to the apprehensions felt as to the possible issue of negotiations for assistance to one institution there; while in Toronto the same state of things existed for a time, until it was known that assistance was going to be rendered to another. At present, then, the monetary position is the one principal topic of conversation. The question is, whether the stringency is to deepen. or whether we have seen the worst of it: whether the assistance afforded will be an effectual relief to the Banks concerned, or whether further trouble may be developed. Along with this, we have also another question: How did all this come about, and what ought to be the course pursued by the mercantile community in view of the grave contingencies of the position?

Addressing ourselves to the consideration of these questions as they arise, we may say that the solution of the first lies very largely in the course that the creditors of our respective banking institutions may take. Our Banks touch the community in three distinct ways. They have creditors in the shape of note-holders and depositors; they have debtors in the shape of customers who have had loans and discounts; and they have a body of shareholders who are affected by the quotations in the stock market. It is the creditors of Banks whose action at this moment is all important, and upon their action largely depends whether the stringency shall increase or not.

Now, we have no hesitation in saying that no creditor of any banking institution amongst us need have the slightest uneasiness as to his position. No depositor need be running to draw his money out of any bank whatever. They are all abundantly able to pay their liabilities. All the notes of the banks are good. No merchant or man of business need to think for a moment of discriminating between them. The existing banking law has provided the most ample protection, by the way it has provided for the enforcement of the liability of stockholders. Formerly the double liability was merely nominal; now it is a reality, and its enforcement within six months is compulsory. It would, of course, be enforced should a bank suspend payment. By this means there cannot be the shadow of a doubt that all its creditors would be paid.

Too much stress cannot be laid on this point at present. We trust it will become widely known that all the banks are amply safe, no matter how low the stock is quoted. If a bank stock fall so low as to be worth only 50 or even 20, or even nothing at all, the depositors and note holders are safe. For even then there would be as large an amount as the original capital to fall back upon for the purpose of meeting the claims of creditors. If the creditors take this rational and common sense view, and go on dealing with the banks in the ordinary way, there need be no greater stringency than exists at present. And the Government, as the largest by far of all the single creditors of the banks, will doubtless set the example of refraining from disturbing the position by making any unusual demands.

But if a different state of things is to prevail then the stringency must inevitably deepen. The banks, in self-defence, will continue to curtail discounts, refuse accommodation, raise their rates, and strengthen their position in every possible way. What might be developed then, it is impossible to forsee, but it is certain that the debtors of the banks would have a very unpleasant time of it. There would be more or less failures, and once the ball commenced rolling, there might be a revulsion that would throw the country back for years.

With regard to the two banks mentioned above, if there is no more than the usual demand for money, it is probable they may be able to proceed with their business But it is certain that there must be a radical change of policy, and possibly an entire reconstruction of the executive. It should be distinctly understood that there has not been the slightest difficulty in Western Canada except with one institution, all newspaper rumours to the contrary. The rashness of giving currency to unauthenticated rumours will at once be apparent.

Applying ourselves now to the very large question of the cause for this state of things, we may observe at the outset, that an amount of mischievous nonsense, not creditable to the intelligence of our community, has been circulated respecting the sending of money by the banks to New York.

Some time ago, three of our largest banks withdrew very large amounts of money from New York, owing to the cheapness of money there, and the impossibility of using it safely and profitably. Most of this money has now been diverted into Canadian channels, and as money in New York is as cheap as ever, it is certain that none of it has been returned there for discounting purposes. But at this time of the year there is almost invariably a flow of money from Canada to New York for the purpose of buying sterling exchange. Very heavy payments on Canadian accounts come due in England in the winter months, especially on the 4th of March, and bills to meet such heavy payments cannot be bought except in New York at this time of the year. Our ocean navigation is closed and the shipments from Portland are on altogether too small a scale to provide any large amount of bills against them. Every winter therefore Canada sends money to New York for that purpose, and that money must be gold, for no other answers the purpose. This is the real solution of the fact of remittances to New York. It is for the very purpose of accommodating our own merchants that the money is sent there, and any notion to the contrary is fallacious.

Coming then to the question of the origin of the stringency, we have no hesitation in stating that two reasons may be assigned for it. One—the working of the Dominion Note Act—the other the absolute necessity for stopping the continuous expansion of discounts.

When the Dominion Note Act was passed, and subsequently when it was amended,