

BANKING IN EUROPE.

National Monetary Commission Seek Information—How Various Systems Work.

As was noted in these columns recently, the special committee of the National Monetary Commission of the United States have decided to make a special examination of the Canadian, Scottish, and European banking systems. The special committee, which consists of Senators Aldrich, Daniel and Hale, and representatives Burton, Paggett, Ovastreet, and Vreeland, are now in London. Their presence leads the London Statist, in an unusually informative article, to throw out a few suggestions for the guidance of the Commission.

As a matter of course, says that journal, the Commission will give its first attention to the great central banks, if it were only because they are the note-issuing banks, and note issuing is an especially important matter in the United States. The Commission will have a choice between banks of very varying constitutions. To begin with, the Imperial Bank of Russia is a State Bank—practically, indeed, it is a branch of the Imperial Russian Treasury. It is owned as well as worked by the Government. It is hardly likely that the Commission will be in favor of a similar institution for the United States. In our opinion, indeed, one of the most urgent needs as regards banking reform in the United States is to get the Government out of banking as soon and as completely as possible. Still, the Imperial Bank of Russia is well worth careful study by the Commissioners. Then there is the Austro-Hungarian Bank, a federal bank which, though excellently managed, does not, unfortunately, commend itself. The Commission is hardly likely to recommend a federal bank. Yet there is much in the constitution as well as in the practice of the Austro-Hungarian Bank which is well deserving of study. Passing from the Russian and the Austro-Hungarian Banks we come to the Bank of England, which stands in strong contrast to the Imperial Bank of Russia.

Great Banks Modelled on Bank of England.

It is quite true that all the great banks in Europe were originally modelled on the Bank of England, which was far the oldest of all. Nevertheless, there is a great difference between the Imperial Bank of Russia and the Bank of England. The former, as already said, is a State Bank in the most literal sense of the word, whereas the Bank of England is a private trading institution, over which the Government has no direct legal power. The capital belongs to private individuals. The government is vested in the Governor and the Court of Directors. Between the Bank of England and the Imperial Bank of Russia stand the Bank of France and the Imperial Bank of Germany.

Both of these are privately owned, just as the Bank of England is, but both of them are subject to the direct control of their Governments. The Governor of the Bank of France is appointed by the Government, and is also removable by the Government. In him all real power is vested. The Bank of France will necessarily attract much attention from the Commissioners for very many reasons. To begin with, it is not required by law to keep a reserve.

European State Banks.

Yet it holds at the present moment the vastest accumulation of gold that has ever been gathered together by a trading institution. Secondly, the Bank of France has the greatest note issue of any bank in the world. And, thirdly, the Bank of France is literally and truly the Bank of the French people. More particularly it lays itself out to cater for the very smallest trader and agriculturist. It discounts bills, for example, as low as 5s. of our money. Coming, in the last place, to the Imperial Bank of Germany, its capital, as already said, belongs to private investors. But the President is appointed by the Government, and also is removable by it. Furthermore, the Bank is immediately under the control of the Chancellor of the Empire. It will be recollected how Prince Bismarck at one time forbade the Bank to take Russian bonds as collateral security. The Bank is most admirably managed, but it does not cater for the small trader any more than does the Bank of England.

It is really the bank of the capitalists. The Imperial Bank will naturally have a great attraction for the American Commissioners, because to it was first given the power to issue emergency currency—a power which the other day Congress conferred upon the American National Banks. This power has been exercised for a very considerable time by the Imperial Bank, and it has worked most admirably. It will be seen that there is a wide field of choice offered by European banking. Especially, there is the choice between a Government-controlled bank and a bank controlled only by its own shareholders and their elected directors. In connection with this, the Commissioners will soon observe that while the note circulation of the Continental banks tends to increase, there has been no increase in the note circulation of the Bank of England for a long time past.

This is due partly, no doubt, to the failure of the Bank of England to open branches all over England and Wales. But

mainly it is due to the growth of the cheque system, a system which, long adopted in the United States, is now beginning to spread to the Continent. It will be, if we may say so without presumption, well worth the while of the Commissioners to study carefully the growth of the cheque system in this country, the country of its original invention. And this will lead them naturally to a study of the great joint stock banks.

English System Deserving of Study.

If the Commissioners have time to make a full study of our banking system they will find it full of instruction and suggestion. They will find it, indeed, though at first sight they may think differently, far more deserving of study than the Continental systems. For England having been the first country to rise to eminence as a manufacturing, commercial, and financial country, has been able to develop banking to a much greater extent than countries which became economically great more recently. One point the Commission will not fail to appreciate at once; that English banking is specialized to a greater extent than the banking of any other country.

It is true that there is specialization in the United States also, but not to so great an extent. The Commissioners will soon see that the Bank of England performs one function, the joint-stock banks another, the great merchant bankers a third, the Anglo-Colonial and Anglo-Foreign banks a fourth, and the bill brokers and discount houses a fifth. It would take us too far to deal with all these different classes. Therefore, we confine ourselves for the present to the joint-stock banks. It is the growth of the joint-stock banks, and especially the success with which they were able to make the cheque system popular, which really has arrested for years past the note circulation of the Bank of England.

Practically, the currency of England now very largely consists of cheques. Coin and notes are still used to pay wages and in fairs and markets. It may almost be said that for all other purposes the cheque has taken their place with immense saving to the community. In fact we are able, owing to the cheque system, to work with a smaller gold reserve than would be considered possible were not the evidence convincing. We agree that our gold reserve is too small. In this journal we have been engaged for many years in urging the joint-stock banks to keep large gold reserves. But while the reserves are too small, the evidence is clear that, owing to the cheque system, the country can work with a much smaller gold reserve than would be deemed possible considering the magnitude of our trade. How far the smallness of the United Kingdom has helped to make the use of the cheque almost universal is worthy of study. How far also branch banks have assisted is well worth the attention of the Commissioners. There is no doubt force in the argument that the area of the United States is so vast that branch banking in the English sense would be difficult, if not dangerous. It is to be recollected, however, that communication is now so easy that what seemed impossible a comparatively few years ago has become quite easy.

Concerning the Joint-Stock Banks.

In any case, the universality of the use of the cheque in this country and the economy of coin it effects are well deserving of the most careful attention of the Commissioners. In the United States the currency of the country mainly consists of "greenbacks," gold and silver certificates, and bank notes. Here, as we have just been pointing out, the currency mainly consists of cheques; at all events, it mainly consists of cheques so far as the well-to-do classes are concerned. Everywhere a man is known and trusted his cheque is taken freely, and in consequence the present writer has known more than one wealthy man who seldom carried either gold or notes about him, but paid for everything he bought by means of cheques, even cheques written on chance scraps of paper.

On the Continent, on the other hand, the note will be found almost as universal as paper money is in the United States. Recently there has been a movement in Germany to encourage the use of cheques. Obviously, it would be an immense benefit to Germany if the use of the cheque became universal. In France the use of the cheque is being inculcated by influential economists. But it is to be feared that it will take a very long time before the use of the cheque becomes at all general on the Continent, and particularly in France. In countries which have still an inconvertible paper money, of course paper is the only currency available. It would be easy to prolong this article. But we have said enough, we hope, to indicate the directions in which the Commission may hope to employ its time to the greatest advantage and with the greatest promptitude.

PATENT FOR SALE

THE Proprietor of Canadian Patent No. 107,427, Sept. 1907 for an improvement in the filtration of Water Supplies, invites correspondence with the view of granting a license for the working of the invention, the principal of which has been favourably commented upon by the technical press of both continents.

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