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Banking Accommodation and the War

Complaint of Banking Credit Restrictions Not Borne Out by the Statistics—Problems of the Banks in Keeping Business Going, While Protecting Depositors—A Proposal and an Expedient.

The man on the street being an impersonal observer has had his ears filled with no end of complaint as to the way the banks are treating their customers. Hardly a day goes by but that the press gives expression to this complaint of restricted credit. First it is an organization that presents its protest in toto, and later comes a prominent citizen to voice his protest, and so on with a general clamor against our banking institutions. The complaint is usually caused by specific circumstances or a group of circumstances, and the complainant or complainants generally fail to take into consideration the reasons therefor, or are unwilling to permit those reasons to affect his or their judgment. It is to take a look at the other side of the picture, and at the same time to contribute a certain definite plan in the way of a temporary expedient to mitigate the financial stress, that this article is presented to our readers.

The cause of the discontent on the part of the business public so far as the banks are concerned, is that of restricted banking accommodation. The policy of credit retrenchment had been in force since the outbreak of the Balkan War in October 1912, and had continued down to the outbreak of this world strife, when the situation became intensified. One does not like to contemplate what would have happened in the Dominion if this gigantic war had fallen on our expanded position in the summer of 1912. However, we have been shortening sail for these past two years, and were sailing in comparatively safe waters, when with startling rapidity Europe became in a state of war.

While at this early date it is impossible to narrate the financial history of the Dominion during the past two months or to take a survey of conditions as they exist at this time, nevertheless it is possible to point out some of the prominent features of the situation.

Before looking into it from the point of view of the banks it may not be amiss to point out that the banks in addition to being credit institutions are also depository in-

stitutions. This is a feature well known by the business interests, the tremendous importance of which is not properly apprehended.

The first duty therefore of a bank is to protect itself against withdrawals of depositors, and the only way to do that is to be able to meet the demand of the depositors at all times and in any amount. It is because of this confidence in the ability of the banks to do this that the public deposit its funds with them. It is therefore essential and

the paramount duty of the banks to be prepared to meet any and all demands on them, in a word to insure their own solvency. How much confidence is placed in the banks is fully attested by the small amount of withdrawals that occurred during the first few days of the war. Not for a moment were withdrawals in such volume that they could remotely be considered as a run.

On the credit side of the situation, the matter of bank loans and accommodation, there are various reasons why extreme caution has to be employed, and it is quite natural that in the exercise of this caution some of the business interests would have to go without the full lines of credit to which they had been accustomed.

It was found that shortly after the war broke out certain of the resources of the banks could not be immediately availed of. These assets were in large volume, and were firmly counted on to be of use on occasions such as the present. In the second place, and for which the people are directly responsible, there has been considerable hoarding. What the amount is it is impossible to

say, but that it runs into many millions is certain. The chartered bank statement for August as compared with that of July shows that deposits both for demand and notice deposits decreased during the month about twenty million of dollars. It might not be correct to say that this decrease represents the amount of hoarded money, but at the same time a safe venture of the amount would not be far from this same twenty million. It looks like something more than a coincidence that the loss in deposits is approximately counterbalanced by an increase in circulation.

On the other hand the August statement shows that current loans in Canada decreased by \$3,500,000 round numbers, loans standing at \$836,500,000 in August, as

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