

Banking Development in Canada and the United States

On comparing the growth of total resources during the entire war period, it is seen that the American National banks effected an increase of 58 per cent; while the Canadian banks gained 48 per cent

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In view of the vast amounts of new securities for war purposes which have been issued in Canada and the United States, it will be interesting to compare the effects produced by these flotations, and by the general activity incidental to the war, during the past year upon the bank position in the two countries. With reference to the American banks, it is not possible to obtain a view as comprehensive or complete as that obtainable in Canada's case. The monthly government return in this country contains the details of the position of all chartered banks; and the chartered banks included in this return transact practically all the banking business of the country; whereas in the case of the United States the statistics so far available for 1917 cover the operations of the national banks only. Although the national banks, which are chartered by the Federal Government at Washington, comprise most of large and important banking institutions, in numbers they represent less than one-third of the banks of the United States. However, while the figures applying to the state and private banks and trust companies for 1917 are not forthcoming, it may be assumed that the special developments and special financing of the period have affected their position more or less in the same way as the national banks were affected; and thus a review of the national bank position will show more or less accurately the prevailing tendencies in American banking as a whole.

First, as regards the comparison of total resources, the national banks of the United States on December 31st, 1917, reported an aggregate of \$13,073,398,000 as against \$15,333,552,000 shown on December 27th, 1916—the increase for the year being \$2,739,756,000, or about 18 per cent. In the same period the total resources of the Canadian banks rose from \$1,948,044,000 to \$2,323,163,000—the increase being \$375,119,000, or a little more than 19 per cent. On comparing the growth of total resources during the entire war period, it is seen that the American national banks effected an increase of \$6,591,118,000, or 58 per cent; while the Canadian banks gained \$754,989,000, 48 per cent. The similarity of the ratio of increase in both cases is striking.

It will be remembered that in 1917 the United States Government issued two great war loans—the first amounting to \$2,000,000,000, and the second, for \$3,800,000,000. These loans represented \$58 per capita of population. Canada also issued two domestic war loans in 1917—aggregating \$550,000,000, or about \$69 per capita. On December 31st, 1917, the United States national banks held in the bonds of their own Government, including Liberty bonds and treasury certificates of indebtedness, \$1,624,529,000, or about 9 per cent of total assets. The Dominion and Provincial Government securities constitute the similar item in the Canadian banks' balance sheet, and owing to the inclusion of provincial bonds the similarity is not complete. However, taking the item as it appears, the balance on December 31st, 1917, was \$188,703,000 or a little over 8 per cent of total assets. The American institutions at the end of 1917 held \$1,870,967,000 of bonds other than those of the United States Government; their aggregate holding of bonds therefore was \$3,495,496,000, or 19 per cent of total assets. The Canadian banks on December 31st, 1917, held in securities of all classes \$468,406,000, or 20 per cent of total assets. Just before the outbreak of war—on June 30th, 1914—the securities held by the American national banks, exclusive of United States and other bonds pledged as security against note issues and Government deposits, amounted to \$1,115,571,000, or about 10 per cent of total assets; while the securities held by the Canadian banks on July 31st, 1914, amounted to \$100,726,000 or about 6½ per cent of total assets.

At the end of 1916 the American national banks' holdings of bonds were \$2,442,300,000; so the holdings of \$3,495,496,000 in December, 1917, represented an increase of \$1,053,196,000 for the year. As their loans and discounts during the same period rose from \$3,

340,000 to \$9,390,000,000, the increase thus shown, \$1,050,000,000, together with the increase of \$1,053,000,000 occurring in the bond holdings, accounts for more than three-quarters of the increase of total resources. Industries which have been extraordinarily active in war work, and the companies and individuals dealing in high priced natural products, required much larger loans from bankers than in previous years; also the banks in all parts of the country were required to lend large amounts to customers and others subscribing to the war loan issues. These transactions had a marked tendency to produce inflation through creating a vast mass of new deposit liabilities.

In case of our own banks the increase of their security holdings during 1917 was \$206,000,000; and the increase of their loans (counting all classes of loans to conform to the American practice) was \$75,000,000. Thus the two items in combination represented an increase of \$281,000,000, or about three-quarters of the increase in total assets—the ratio being almost exactly the same as shown by the American national banks. It is remarkable that the results should be so nearly the same in the two countries. In Canada the banks, besides lending their assistance directly to the Dominion Government, have advanced large sums to the Government of the United Kingdom by means of credits to the Imperial Munitions Board. The counterpart of these developments are seen in the United States in the large loans made by the American bankers to Britain, France and Russia prior to the entry of the big American republic into the war. Those securities found their way to the banks, in large measure—

TEN REASONS WHY SECURITIES SHOULD BE PURCHASED.

One of our organization has compiled what seem to him ten good reasons for the purchase of securities. We present them herewith:

1. Intrinsic values based on earnings are as great as, if not greater than, ever before in our financial history.
2. Adjustment of prices, due to selling from (a) war waste, (b) necessity, (c) super-tax on large incomes, (d) fear caused by seeing others sell, has been very thorough.
3. Adjustment of industry to a war basis has largely been paid for already by stockholders through their relinquishment of extra war dividends, and the charging of cost of war plants to accrued earnings.
4. The Government and business are co-operating as never before. This friendly basis of understanding is bound to continue and grow, and means much to the security holders, who own our great enterprises.
5. The excess profit and income tax laws have already been considered and discounted by security prices.
6. The borrowing of Allied governments to finance the war has stimulated Allied efficiency, productivity and individual and collective wealth creating effort in an unprecedented degree.
7. The moral standards of the Allied nations have been incalculably advanced.
8. Yields on securities are great—with no more risk than normally.
9. Continuance of the war is not likely to depress bond prices more than moderately, so drastic has been the decline from normal.
10. The security market is a barometer, not a thermometer—it records coming, not current, events. Peace will find prices much higher and bargains in the hands of those with the courage and foresight to discount its advent, not those who await clear skies. This is the experience of market history—and the same principles apply now as always.—Hayden, Stone & Co.

the banks either taking them to hold as investments or as collateral to loans.

The course of the deposits naturally reflected the expansion of loans. Total deposits of the national banks on December 31st, 1917, were \$14,445,000,000, as against \$12,251,000,000 in December, 1916—the increase for the year being \$2,194,000,000, or 18 p. c. Canadian bank deposits in 1917 rose from \$1,528,000,000 to \$1,842,000,000—the increase being \$316,000,000, or nearly 21 per cent. There are differences in the character of the deposits. For example, our banks have carried large sums at credit of the Dominion Government—the proceeds of bond issues or of temporary loans; whereas the American Government carries its balances with the federal reserve banks. Again the American national banks in the central reserve cities have in their possession very heavy balances belonging to other banks and bankers in the United States. These balances due to banks and bankers in case of the national banks usually represent something like one-third of the total of deposits. To a certain extent this re-depositing by country banks of their own deposits represents a duplication of figures. Owing to our possession of the branch system the item of deposits of other banks in Canada never reaches important figures in our bank returns.

Some of the American bankers operating in the country districts complain that the proceeds of war loans and other special war financing gravitate too strongly to the large Wall Street banks. Four or five of these institutions have shown amounts increase of resources since the commencement of the war. The National City Bank of New York is a conspicuous example. On October 31st, 1914, this institution showed total assets of \$354,000,000. The last statement for 1917, that for December 31st shows total resources of \$812,000,000—the increase for the three years being \$458,000,000, or nearly 130 per cent. These large banks at the principal centres carry the accounts of the most important manufacturing and mercantile concerns; and when these concerns receive payment for goods supplied to their own Government or to the Allies the funds naturally gravitate to the big banks. Under one system, even when the large banks do receive, through their customers, the proceeds of war loans and foreign payments, the funds are available anywhere in Canada through the operation of the branches.

WHAT THE LATEST WAR DEVELOPMENTS MEAN.

We are approaching with confidence the new military campaign which must develop with the spring. We know that we ourselves are from now on to participate in the sacrifice of life which is the inevitable concomitant of war, and which unfortunately is so necessary for the protection of freedom of thought and action, and for the preservation of our free and enlightened republic. But there will be no faltering, no turning back and there can be but one result—the overthrow of the despotic and autocratic caste which so insidiously is trying to enslave the world. It occurs to me that at this juncture Japan and China should take care of the Siberian section during the war to admit of the United States concentrating her entire force in every way possible in aid of the Allies in Europe. In giving Japan full scope, especially if put on the basis of co-operative trusteeship, I feel quite sure that knowing and believing in Japan as I do, it would not be taken advantage of during the war or thereafter.

We did not enter the war for selfish gain; we have none but the loftiest motives in endeavoring to bring the struggle to a prompt and victorious close. At the same time it is obvious that the results of the war inevitably will provide benefits of a material character. Before our own participation we had already broadened out; our more local viewpoint had given place to one of the widest internationalism. We had paid back to our foreign creditors the debts incurred for the rapid development of our country. Our foreign trade with neutral as well as belligerent countries had increased by leaps and bounds. Dollar exchange was rapidly being substituted for sterling exchange, and we were in first place as the world's bankers. All this was a mere foundation for what is happening since we ourselves were forced to become a belligerent. We now are building ships on such a scale as to ensure that the American flag will, with peace, once again be seen on all the Seven Seas; we are loaning billions to the countries with whom we are associated in the war. These billions, in fact, represent investments of our people, for they are the proceeds of our own Liberty bonds, which our Treasury in turn is loaning at the same rates it itself is paying for the funds.—Henry Clews.