

A COMPARISON OF BANKS' CASH RESERVES.

Mr. Eckhardt Finds that Cash Reserves of Canadian Banks Compare Favorably with those of European Institutions—Detailed Comparisons of English, French and German with Canadian Banks.

That the cash reserves of the Canadian banks compare favorably with those of European institutions is the conclusion come to by Mr. H. M. P. Eckhardt, as the result of a careful study of the subject, published in the current issue of the Journal of the Canadian Bankers' Association. Mr. Eckhardt finds that in the matter of the relation of cash pure and simple (specie and legal tenders) to liabilities, the Canadian institutions compare favorably with the important European banks except the central institutions. Their percentage is higher than the German or the French banks and in all probability it is higher than that of important English institutions. As regards cash in hand and in bank, the Canadian banks on the whole, rank well up to the British representative banks, and their showing is distinctly better than that of the French and German banks.

In the course of his paper, Mr. Eckhardt points out that in the case of the Bank of England, a 40 p.c. reserve of specie is looked upon as the minimum of strength except under extraordinary circumstances. When the specie in the bank vaults falls below 40 p.c., the executive of the bank proceeds to take the necessary measures to increase its reserve. And the Bank of England is expected to carry strong reserves, because the cash in its vaults constitutes, in a certain measure, the basis for the banking liabilities of the whole kingdom.

Only one or two of the English joint stock banks report separately their cash in hand, distinct from the balance carried at the Bank of England. The Union of London and Smiths, of which Sir Felix Schuster is governor, is one of those which do this and on a given date, reported in its balance sheet cash in hand of a little over 7½ p.c. of its liabilities to the public, and its balance at the Bank of England brought up the ratio to about 16 p.c. of the liabilities. Money at call and short notice increased the amount immediately available to 32½ p.c. The London Joint Stock Bank, at the same date, showed cash in hand and at the Bank of England equal to 15½ p.c. of liabilities and money at call and short notice brought the ratio up to about 34 p.c. The London and Westminster Bank similarly showed cash and balance at the Bank of England equal to 15½ p.c. and, including the money at call and short notice, a percentage to liabilities of 40. The English banks have also their bills discounted, Consols and other first class investment securities which they consider available for re-discount at the Bank of England, for selling in the market, or as security for direct loans at the Bank of England.

FRENCH AND GERMAN PRACTICE.

The Bank of France on a given date had a proportion of specie to liability of 64½ p.c., but, as Mr. Eckhardt points out, the tendency to lean on the central institution is more marked upon the continent than in Great Britain. Thus, the Credit

Lyonnais at a given date had only cash on hand and in the banks equal to 8½ p.c. of its liabilities to the public, but the question of cash is considered a matter of small moment by the officials, since the Bank of France stands ready and must always stand ready to rediscount all bills with three French names presented by customers "admitted to discount" as the phrase is. Assuming that the entire holding of bills discounted could be converted at will into a credit at the Bank of France or into cash, the proportion of reserve to liability of the Credit Lyonnais becomes about 70 p.c. Similarly the Comptoir d'Escompte at a given date had cash on hand and in bank in a proportion of 7 p.c. of its liabilities to the public. But, admitting bills discounted, which, like those owned by the Credit Lyonnais, are said to be practically all eligible for re-discount at the Bank of France, the proportion is raised to over 67 p.c.

In Germany the centre of the system is the Reichsbank, which at a given date, when cash was at an abnormally low level, carried a proportion to liabilities of about 30 p.c. The Deutsche Bank at the same time had less than 7½ p.c. of its liabilities in cash. Including cash in banks brings the proportion up to 11 p.c., and bills discounted further bring up the percentage to 51. Officials of the bank explain that it is the usual practice to keep in vaults and banks often more than 10 p.c. of cash and sometimes less, perhaps 8 p.c. The Dresden Bank at the same date had cash in hand equal to 6½ p.c. of its liabilities; bank balances brought this proportion up to over 10½ p.c. and bills discounted, presumably available for re-discount at will at the Reichsbank, took the proportion up to 44 p.c.

HOW CANADIAN BANKS COMPARE.

Proceeding next to the reserves carried in Canada, Mr. Eckhardt points out that by its last report at April 30, 1911, the Bank of Montreal had liabilities to the public of about \$180,000,000. Its holdings of specie and Dominion notes were \$20,000,000 or slightly over 10½ p.c. Balances in international banks of \$14,000,000 brought the total of cash in hand and in bank to \$34,000,000 or 18 p.c. of the liabilities. Adding to this the total of call loans abroad, \$47,000,000, the available reserve, as we count it in Canada, becomes \$81,000,000 or about 43 p.c. "However, it is to be remembered," says Mr. Eckhardt, "that the Bank of Montreal is not a central or state bank. It has no special privileges, monopolies or rights such as the European state banks possess. It is merely the largest and foremost bank in the Dominion. As Sir Edward Clouston explained to the members of the sub-committee of the Monetary Commission when they were in Canada, the Bank of Montreal is apt to be the ultimate resource of smaller banks that get into difficulties, and for that and other reasons the bank follows the policy of running rather strong in liquid assets."

Taking the returns made by all the banks on April 30, Mr. Eckhardt finds that their liabilities to the public were \$1,046,000,000. Specie and Dominion notes amounted to \$111,800,000 or about 10½ p.c. The net balances in British and foreign