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BANKS AND RE-DISCOUNTING.

Many suggestions are being made, from time to time, of plans designed to improve the weak points of the American monetary system. The defective working of the machinery has been more than usually noticeable in the last few years because the strain on credit has been abnormally severe. The remedies proposed have been chiefly legislative, but nearly everything suggested rouses up bitter opposition in some quarter, and the great trouble is to evolve a scheme that will be effectual and yet avoid antagonizing powerful interests. An officer of the firm of Kuhn, Loeb & Co., the great New York bankers, the other day suggested a change in banking practice which The Wall Street Journal commends as likely to work a considerable improvement if it can be carried out.

The officer referred to, Mr. Paul Warburg suggests that commercial paper be made more readily negotiable through bank indorsement, which would enable it to be re-discounted as many times as holders of it might desire, up to the time of maturity. What caused this suggestion, is the fact that the European banks always hold a great quantity of foreign bills in their portfolios—bills domiciled in every country in Europe. The American bills they hold are not payable in America, but are merely bills originating on this side of the Atlantic and drawn on some point in Europe. Mr. Warburg's idea is to make a large quantity of the commercial paper held by banks in the States available for discount in Europe, in the same way that European paper is now available. He says: "In order thus to make our paper part and parcel of the world's international exchange, it needs, however, as a preliminary condition, to become the foundation on which our own financial edifice is erected. It must have a ready home market, where it can be rediscounted at any moment."

It is well known that the funds which the London and Paris banks employ in discounting these bills are regarded as being "out at call." There is a ready market for them at all times and whenever a holder wishes to dispose of them all that is necessary is to hand them to a bill broker and the money is secured at once. Mr. Warburg goes on: "Our methods are just the reverse of the European system. With us call money does not go into the bill market. Every American bank, since it cannot count upon re-selling the notes which it buys, must

necessarily limit the amount which it can properly invest in American paper, and as a consequence, almost all the call money is invested in demand loans on the Stock Exchange."

Here in Canada, re-discounting is hardly practised at all. Only some few of the smaller institutions borrow from, or re-discount with, other banks. To do so is regarded almost as a sign of weakness or of a too extensive business. Whenever one of our banks discounts a batch of bills for a customer, the understanding is that the bank shall hold them, as illiquid assets, till they run off at maturity. And besides, there is in many cases an implied undertaking to renew the bills in whole or in part, once or even twice. To carry on banking of this description requires a larger capital than would be needed for a business in which the actual turn-over of funds was quicker. Also it would seem to be less profitable, unless the difference between rates of discount and deposit was greater. In this practice of ours each bank takes care of its own customers. Their paper is not hawked about the street, but stays where it is put till maturity. So far we have not felt the necessity of re-discounting our mercantile paper in London. Many of the banks do, to be sure, borrow there, but it is on the security of gilt edged bonds and stocks.

In the States there is already a sort of re-discounting practised, though there is not a broad, regular market for so dealing with mercantile paper. Quite frequently the banks in Montreal and Toronto receive circulars offering, for discount or sale, notes of big manufacturing or mercantile corporations in the States, in lots of \$10,000 or more. Also travellers or drummers are sent out through the States with lists of these notes. It must be humiliating to some of the firms to have to submit to this, and to know that their notes are being offered to and perhaps refused by little banks in all parts of the country. In London the case is different. There is no hawking about. The bills are simply taken to the market and disposed of, the only thing to be arranged being the rate of discount. Of course in a business of that kind it is necessary that the bills be of the highest class. The endorsements are numerous, and it would never do to have them go to default. If any holder has bills, the prompt payment of which is not absolutely certain, it is not likely that he will let them go into the bill market.

There is no question but that it would prove a great relief for New York to be able to send over to Europe batches of choice bills for discount. At present, the New York bankers are accustomed to draw finance bills on Europe in anticipation of produce exports in the fall. These finance bills are merely loans made by Europe to America, and they are retired by bills drawn against grain and cotton shipments. They were used so extensively lately, that a feeling against them has arisen in London, where it is held that they were the main cause of the large gold exports, which drove the Bank of England rate to seven per cent., and penalized the home British trade and industry. If the New York bankers can develop a good, broad home market for