

**THE FUNDS OF CANADIAN BANKS USED IN
THE UNITED STATES AND INVESTED IN
AMERICAN SECURITIES.**

Public attention has again been directed to the amount of money which the Canadian banks have in use in the United States and invested in American securities. A letter on this topic appeared in our esteemed contemporary *The "Star"* on the 18th inst., signed "C. E. R.," which dealt with it in a trenchant and able manner. He introduces two other subjects which are not apposite to the protest against Canadian funds being used in the United States.

One of these is the Bank note issue question. He complains that, "the banks are allowed to issue notes without any interest whatever to extent of \$55,412,000, and without any security." When notes in England bore interest the banks that issued them were swept down by panic after panic, the notes being made valueless. To make notes bear interest, or liable to taxation, does not add to their safety.

The notes issued by any Canadian chartered bank are practically guaranteed by the other banks. For every \$100 of notes the banks hold \$1,000 of assets which are specifically applicable to their payment, as the notes are a first charge on the assets. Owing to this provision the notes of the Bank of Manitoba and of the Ville-Marie, both of which failed, were redeemed in full, although the other creditors got a mere fraction of their claims. Than those two cases no more striking evidence could be afforded of the bank notes of Canadian banks being more, far more than amply secured. In addition to the entire assets of a bank there is the "Redemption Fund" available to supply any deficiency, which has never once being touched for this purpose. A Canadian bank note, therefore, is as good as gold, and the circulation of the banks supplies capital for the trading operations of Canada, which is now, and ever since the notes were first issued has been, of very material service to this country.

The real point at issue is:—

Do the banks withdraw funds from Canada to use them in New York, Chicago and Boston, and, do the banks discriminate against Canadian securities when making investments?

The banks of Canada have call loans in the United States to amount of \$38,237,824 against \$41,280,045 in Canada. They have also \$27,216,080 of current loans outside Canada which are also regarded as American business. Together these two classes of loans make a total of \$65,453,904. The banks also have \$37,121,255 invested in railway securities, which are almost wholly American. Their investments in the securities of Canada and the whole British Empire amount to, say \$27,811,882, which sum is less by \$9,309,373 than their

investments in railways, principally American. Adding the loans made in the States to their American investments we get a total of \$102,575,159 of money owned by Canadian banks, the whole, or the great bulk of which is utilized for business and for investments in the United States. As the entire assets of the banks is \$638,123,930 the Canadian bank funds used for American business amount to 16 per cent. of their assets, and \$26,600,000 more than their aggregate paid-up capital. Canadians needing accommodation by discounts or loans very generally complain that they have to pay higher rates than those in New York. When rates are high in New York they are raised here, but, when reduced in New York the banks in Canada are slow to follow suit by lowering rates in this market, as far as Call Loans are concerned. However, it must be remembered that while 6 per cent. is the standard rate in Canada for discounting commercial paper, and which rarely fluctuates, in New York the rate is governed entirely by supply and demand.

The plea that, a Canadian bank has a right to be carried on "only to make money for the shareholders," will not bear examination. Had that been their exclusive object when organized and chartered they would not have been granted such valuable, such exclusive privileges by Parliament. Parliament forbids the use of the title "Bank" by other than the Chartered banks, and Parliament imposes certain regulations upon their business. A Canadian bank is a creature not of private enterprise wholly, but of Parliament, which constitutes each bank a national institution bound to use its privileges and its prestige, both given by Parliament, for the advantage of Canada.

In this connection it must be considered that the monetary conditions in New York are different to those in Canada. In that city money can always be had promptly by any borrower in good credit and with good securities. The question is one of price, not of supply. Here it is understood that call loans, with the large majority of the banks, are good money which will not be suddenly demanded, as the local stock of funds is too restricted to admit of any sudden large demand being conveniently met. It must also be taken into consideration that while the stocks listed in New York are of an international character, the majority of those listed in Montreal and Toronto are Canadian. The monetary conditions of this continent have made New York the financial centre on this side the Atlantic just as London is with the United Kingdom. Economic laws render it desirable to concentrate funds at some point where they are available for meeting any emergencies that may arise in places of less importance, where heavy stocks of money could not be kept without waste. All who borrow money are interested in having bank funds as active as possible, and in the amount