

Journal of Commerce

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MONTREAL, TUESDAY, AUGUST 18, 1914.

The Bank of England at Ottawa

A plan is under consideration in New York by bankers and business men, including a Committee of the Chamber of Commerce, for relieving the strain upon foreign exchanges. It involves asking the permission of the Government to allow National Banks to hold bank notes as part of their legal reserves, thus letting loose a stream of gold for exchange purposes.

What this would mean for the grain trade cannot be over-estimated. As matters stand, documentary bills of exchange cannot be discounted at the banks either in the United States or in Canada, for the simple reason that the banks have no guarantee that they can collect in England against the wheat shipped.

It is possible, however, that when hostilities cease and the world returns to industry, that the surplus funds of investment capital of England, France, and Germany, which nations possess the great reservoirs of capital, will find home enterprises less attractive than those of other nations that have not felt the devastation of war.

Capital is not noted for its patriotism. Capital flows where it will reap the highest returns. One of the inevitable results of war is higher taxation. Industry, commerce and agriculture will bear heavy burdens in the years to come, in the countries in the war zone, to make good the ravages of war.

A heavy indemnity payment would aggravate the capital position of the paying nation; but so far as the situation as a whole in Europe would be concerned, it would remain the same. One country would merely gain at the expense of the other.

Investment in Canada, the United States, South America and China might be preferred by England, France and Germany, to investment at home. While capital as a whole may be reduced, Canada and the United States may receive a larger proportion than in the past. There will likely be economic stagnation in Germany for years to come.

Every man of common sense hopes that one result—the chief good—of the present war, will be the curtailment of present armaments, upon which the nations of the world are squandering \$2,500,000,000 per annum.

All this is as futile as it is criminally wasteful. The maxim "In time of peace prepare for war," is a delusion and a snare. Armaments breed war.

Kaiser Wilhelm's "shining armour" is the cause of this whole mad business. The world has surely grown up; feathers and all trappings of war belong to the days of barbarism.

Chilian Nitrate and the War

The war will at least stimulate one great industry, the nitrate mines of Chili. That country possesses the most extensive nitrate fields in the world and as nitrate enters very largely into the manufacture of gunpowder and other explosives the demand for nitrate will naturally show a marked increase.

Since 1830 Chili has exported nitrate valued at \$1,225,300,000. Of her total exports last year amounting to \$144,653,000, minerals totalled \$126,988,000. Of the minerals exported nitrate took first place followed by copper, silver, coal and gold.

Owing to the recent completion of the Chilian Argentine Railway there has been a considerable increase in the trade between these two countries. Chili expects to derive a great deal of benefit from the opening of the Panama Canal and is expanding her railroad facilities.

Valparaiso alone is developing \$13,000,000 on her harbor while another \$20,000,000 is to be expended on other harbors along the coast. The Government is also voting large sums of money for the purpose of improving and extending the country's railroads, spending nearly \$20,000,000 last year for this purpose.

One of the most profitable private owned roads in the Republic is the Nitrate Railway which carries out the bulk of the country's nitrate. As stated above this is the most valuable product exported from Chili.

Mexico is staging another revolution. She probably objects being put off the front page by the European war.

Point St. Charles' residents complain bitterly regarding their treatment by the city. The subway is flooded so that pedestrians cannot get through, while vigilant police patrol the railway tracks and prevent them crossing overhead.

The Calgary oil boom is a thing of the past and lives only in the regretful memories of the people who invested their money in oil stocks. It was a crazy bit of speculation and the one or two oil wells

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Such a searchlight attached to the Beck searchlight gives 1,000,000,000 candle power as against 18,000,000 candle power up till now obtainable.—New York Tribune.

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Friends can render very material service. They will remember, firstly, that the United Kingdom fought even the Great Napoleon himself for nearly a quarter of a century and did not come out unsuccessful. They will, therefore, feel assured that the country need not quail before the present puny imitators of the great Emperor.

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THE CANADIAN BANKING SYSTEM

(Number Twenty-five in a Series of Short Articles on Business Economics.) (By Professor W. W. Swanson.) A bank may agree upon the rate of interest which a borrower must pay, and may exact such interest in advance, but no higher rate than 7 per cent is recoverable at law.

Canadian banks have been charged with levying a much higher rate of interest than 7 per cent—as much as 8 to 12 per cent, having been charged, especially in the West. But critics should not lose sight of the fact that it costs more to transact business in the West than in the East. Rents, salaries and general expenses are much higher.

While it is admitted that rates as high as 12 per cent, have been charged, it is generally because of the great risk run. Borrowers who do not deposit to any extent, and who can not show successful records, must expect to pay more than the usual rates.

It may be said that the ordinary rate of discount, throughout Canada, does not go higher than 6 per cent. Banks may pay upon deposits any rate they choose. By a tacit understanding the Canadian banks pay 3 per cent as a general rule; although the Weyburn Security pays a somewhat higher rate, 4 per cent.

It may be said here that the chartered banks feel a grievance against the Government and Postal Savings Banks in that the latter also pay 3 per cent on deposits. The Government institutions are not subjected to the ordinary risks of commercial banking, and do not give the same facilities as the chartered banks to depositors.

In fact, the Government and Postal Savings Banks are little more than depositories for the savings of the people. They hold a reserve of 10 per cent in gold, and use the balance of the deposits for Government purposes. It is for this reason, therefore, that there is a general feeling among the chartered banks that 3 per cent is too high a rate for the Government to pay—especially as the return should be adjusted to the pure interest rate, risk being practically eliminated.

Bank Mergers. The recent merger of the Metropolitan with the Bank of Nova Scotia has aroused interest in the provisions of the Bank Act dealing with this subject. There have been several important mergers of Canadian banks in recent years, and a feeling grew up, which found wide expression in the press, that there was danger of the formation of a "money trust" in this country.

Much good ink and paper were used up to show just how twenty-three men controlled the financial destinies of Canada, and how the merging of the interests of smaller banks with larger institutions meant less opportunity for the Canadian business man and the Canadian people. But nothing is farther from the facts.

Big, strong banks do not mean less competition, but, on the contrary, mean more. At any rate, competition in itself may not mean lower rates to the borrower, but higher. Where four or five banks are doing the business of a small town where two or three alone are necessary, there are bound to be losses to all concerned.

These expenses must be made up in some way, and in the end they come out of the public. It is better for all concerned that only sufficient branches be established to meet the demands of business; duplication of service merely means additional expenses to the banks and higher interest rates to the public.

Purchase of the Assets of a Bank. In order, however, to safeguard all interests, the act as amended in 1913 put into force certain provisions to cover bank mergers.

Before a bank can enter into any agreement to sell the whole, or any portion, of its assets to another bank, it is necessary to obtain the consent of the Minister of Finance in writing. The agreement must then be submitted to the shareholders of the selling bank either at the annual or a special meeting.

A copy of the agreement must be mailed to each of the shareholders, at least four weeks previous to the date of the meeting. To effect the sale of the assets of a bank the shareholders representing not less than two-thirds of the value of the subscribed capital stock must be cast in its favor.

The agreement may then be executed under the seals of the banks, and application made to the Governor-in-Council (practically the Cabinet) through the Minister of Finance, for approval.

If the agreement provides for payment in whole or in part in the shares of the purchasing bank, the approval of the shareholders must first be obtained. The approval of the Cabinet is not given until the Minister is satisfied that all the requirements of the act have been met, and the necessary publicity in the "Gazette" and certain newspapers given.

The notes of the bank that is absorbed must be called in, redeemed and cancelled, as soon as possible. Returns to Government. Banks must send to the Minister of Finance a statement at the end of each month in a specified form. The Minister may call for special returns from any bank at any time.

Payments to Minister of Finance. Within three years after a bank has gone into liquidation, the liquidator must pay to the Minister of Finance all amounts due to shareholders or depositors remaining unclaimed, together with interest due. The Government holds the money in trust, and must pay for six years interest at 3 per cent, on all interest-bearing deposits. Liquidators must also pay, within three years, to the Minister of Finance an amount equal to the excess of the outstanding notes above the amount to the credit of the failed bank in the Circulation Redemption Fund, the money to be held for the redemption of the outstanding notes.

If the property of a bank is insufficient to pay its liabilities, each shareholder shall be liable for the deficiency to an amount equal to the par value of the shares held by him, in addition to any amount not paid up on such shares.

Changes in Bank Statements. The Act of 1913 made several important additions to the various statements that must be submitted by the banks, the chief of which are as follows: Hereafter the gold and Dominion notes held by the banks must be stated separately. The same holds true of notes and cheques of other banks. By this change the notes of other banks can be arrived at, and the exact circulation in the hands of other banks ascertained.

The former heading "Bank Premises now reads: "Bank premises" not more than cost, less amount, if any, written off." "Deposits in the Central Gold Reserves" is an interesting item, the nature of which has already been explained.

"Loans to Cities, Towns, Municipalities, and School Districts" show the amount of temporary assistance granted by the banks to these several authorities. These advances are made in part in anticipation of taxes, but mostly in connection with proposed bond issues, where the by-laws authorizing them have already been passed. The amount of bank loans to municipalities is a good index of the future trend of the market for bonds, and should prove very helpful information to both brokers and municipalities with respect to future bond issues.

"Acceptances under Letters of Credit" on the liabilities side is offset on the asset side by "Liabilities of Customers under Letters of Credit, as per Contract." Although the bank is directly liable to its correspondents, these acceptances are drawn against bills of lading, and the obligation is further protected by the financial standing and credit of the customer himself.

"Bills Payable" is one of the most important of the new headings. It applies only to those banks who do a large business in Great Britain and Europe. "Bills Payable" is not defined by the Bank Act, but the intention is that the term should include all drafts, other than demand and sight, drawn upon and accepted by agents and correspondents in Great Britain and Europe.

These bills originate in the regular course of foreign exchange business. Some of them are thirty or sixty days bills sold to customers, who prefer this method of remittance to that of purchasing demand drafts or cable transfers. Others may arise through a desire to anticipate a change in the rate of exchange. They are known as "finance bills" as they arise through a monetary transaction and not through the shipment of goods.

BRITISH IDEALS MUST TRIUMPH. British civilization and British manhood is now on trial. In the great struggle which now convulses Europe Anglo-Saxons again has been challenged and again has been told "thus far shalt thou go."

The mighty issue now to be settled on the field of blood is whether British justice can be upheld by British might, whether democracy or autocracy shall triumph, whether the smaller nations shall be free or whether they shall bow and yield to the brute force of military manias.

In the fight Britain has everything at stake and must stand by the very limit of our resources. In self-defence we must do our utmost in the struggle in which Britishers everywhere are now engaged.—Grain Growers Guide.

THE BRITISH NAVAL COMMANDER. Sir John Jellicoe, who has been placed in supreme command of the British home fleet, is a naval "babe," being about the same height as the hero of Kandahar, and the chances are that he will occupy as large a place in British history. He was one of the officers of the Victoria when it was rammed by the Camperdown in the Mediterranean in 1893. He was ill in bed at the time of the disaster and went down with the ship, but was ultimately found on the coast alive, but unconscious. A man who could survive such an experience must have had big things in store for him.

TOLSTOI'S PROPHECY. Tolstois, the great Russian novelist and reformer, a short time before his death predicted the present struggle in Europe. He declared: "The great conflagration will start about 1912 set by the torch of the southeastern Europe. It will develop into a destruction and calamity in 1913. In that year I see all Europe in flames and bleeding. I hear the lamentation of huge battlefields.

"But about the year 1915 a strange figure from the north—a new Napoleon—enters the stage of the bloody drama. He is a man of little military training, a writer or a journalist, but in his grip most of Europe will remain until 1925."—London Free Press.

MEXICAN OIL FIELDS. For years oil men the world over have been looking towards Mexico. That many have seen its possibilities is attested by the fact that \$300,000,000 in non-invested in Mexican oil properties, a little over one-third is European capital, while almost two-thirds is American. Mexico now ranks third among oil-producing countries, being exceeded by only the United States and Russia. In 1913 it produced about 24,200,000 barrels of oil, or about 7 per cent of the world's total.

Oil men assert that if there were facilities to take care of the oil, and political conditions were settled, the country would produce between 80,000,000 and 90,000,000 barrels, far surpassing the United States. It is difficult to say how long such a production as this would last, for it hardly seems likely that our big Mexican gushers brought in several years ago would be flowing at their initial output to-day if they had been allowed to remain wide open.

Following are production figures since 1906:

Table with 3 columns: Year, Barrels, Value. Data: 1906-1906 1,000,000 1910 4,331,926; 1907 1,907,000 1911 14,051,893; 1908 3,841,410 1912 16,538,215; 1909 2,488,742 1913 24,200,000

THE COMPLETED CANAL. Without fuss or feathers the builders of the Panama Canal set an example to Congress and the business men of the United States by concentrating their efforts upon the practical completion of the canal and they are now able to report that it will be ready for use next week. Work remains to be done before the canal will be capable of admitting the largest steamships but all vessels that now use the Suez Canal will be able to go through it without difficulty. Europe has sacrificed everything to the gold-culty, and no one can deny that a wandering Bedouin could be bribed to crawl up to the bank of that Canal and explode a bomb which would throw sand into the cut that it would take weeks to remove. Even if the British Navy control the sea, the Suez Canal is now exposed to war risks because it is the property of Great Britain and France, the English holding the preponderating share. The unexpected may happen and the United States may through the misfortunes of others become the chief beneficiary of its own vast enterprise.—New York Commercial.

British army consul will not allow war correspondents to accompany expeditionary forces. All correspondents may be asked to leave Belgium.

Imperial Bank OF CANADA

HEAD OFFICE - TORONTO Capital Paid up \$7,000,000 Reserve Fund \$7,000,000

This bank issues Letters of Credit negotiable in all parts of the world. This bank has 137 branches throughout the Dominion of Canada.

SAVINGS BANK DEPARTMENT at each branch of the bank, where money may be deposited and interest paid.

MONTREAL: Cor. St. James and McGill Sts. BRANCHES: St. Lawrence Blvd., Maisonneuve.

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