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Moratorium Not Needed in Dominion or Provinces

Reason for Enactment of Measure—Ineffectual to Solve the Difficulties—Strong Opposition to its Continuance—Operation of Act in Canada Would Have Tendency to Invalidate Contracts, and in the End Protect the Strong Against the Weak.

On July 30th last, Germany declared herself in a state of war, and the following day war was jointly declared on Russia and France, and the British banks went on a four-day holiday. On August 4th the banks opened, but under different conditions. For the first time in the history of Great Britain, a moratorium was declared; although on Continental Europe, where the law is much less repugnant to executive interference, recourse has been made to this expedient from the time of ancient Rome, and perhaps antedating that period.

The act of moratoria passed August 3rd, and operative on the 4th, affected foreign bills of exchange only, accepted prior to the latter date, and delayed payments for a period of one calendar month, with power to extend its operation from month to month for a period of six months. (Since the date of promulgation, the moratorium has been extended to October 4th.)

The reason for the instituting of so drastic a measure by the British Government would involve an explanation of the whole operation of the huge exchange market, and the unique position of London as the world banker. Briefly summarized, the position of London in world finance and trade is somewhat as follows:

Every shipper or importer doing a foreign business has credits in London, or may arrange by cable for credits. If, for instance, a cargo of wheat is purchased at Buenos Ayres for delivery at Bordeaux, the shipper at Buenos Ayres will draw a bill of exchange or time draft on London, and present same to the Argentine bank for discount. The Bordeaux importer will place through a French bank credit to its London correspondent, which acceptance will release the funds of the Argentine bank to the Buenos Ayres exporter. On arrival of the cargo at Bordeaux, the importer will receive the money for same and remit to his bank's London correspondent, thus closing the transaction. Several steps in the process are eliminated for brevity. But

what prevents the shipment of gold from Bordeaux to London, thence to Buenos Ayres, is the fact that credits exist in London for Bordeaux account, while debits exist at London against Buenos Ayres account. This is handled through the fluctuation in the supply and demand of bills of exchange in the London market, and metal moves only when the price of exchange is sufficient to warrant a profit in the shipment.

But the process in London of taking up these bills and selling them, in pairing off debits and credits for foreign accounts, is handled by bill brokers. These bill brokers buy and sell these bills, and acting for principals and agents have the bills discounted in the open market, being endorsed by the agents and accepted by the bankers. These bills are readily negotiable, and before a bill matures and is presented for payment it may pass through several hands, with the acceptance of each on the instrument. While the progress of a bill of exchange, from drawing to final payment, is involved and intricate, its manner of operation seems to give it a charmed existence through the smoothness and despatch with which it progresses from its making to its maturity.

Now while these operations work marvellously smoothly in usual times, and even during periods of depression and unsettlement, war absolutely destroys the machinery of exchange until a thorough readjustment is affected, and even then potential war events may affect the process, and may involve a more general shipment of gold.

On the outbreak of war, it thus becomes manifest how seriously disturbed the machinery of exchange must have been. London bill brokers, agents of shippers and importers and bankers were caught with hundreds of millions of pounds of bills of exchange, some of them drawn on merchants of countries at war, and at war with Great Britain, while those drawn on merchants of neutral powers, for the moment, were as difficult to handle as belligerents. These bills were invariably accepted by bankers who were liable for the amounts but who at the same time were not, and in the very nature of the circumstances could not be, in possession of the shipments, except in rare cases where the goods happened to be in a port of the British Isles.

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