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## A BANK OF RE-DISCOUNT.

Mr. E. L. Pease brought into the arena of public discussion the other day a matter of great interest and importance to the whole business community, by his suggestion for the serious consideration of the matter of establishment of a bank of re-discount, as a supplement to the existing Canadian banking system. It will assist in appreciation of the bearings of this suggestion, if its context be borne in mind. Mr. Pease cited the recent appointment of a committee in England, an appointment referred to on this page a fortnight ago, to consider the matter of adequate financial arrangements for British industry immediately after the war, particularly in regard to facilitating the conversion to normal production of works and factories, now engaged on war work, and to meet the exceptional demands for raw materials arising from the depletion of stocks. Mr. Pease pointed out that, as conditions in Canada are somewhat parallel to those in England, and serious difficulties will confront us at the close of the war, it is a duty to endeavor to devise safeguards against them. The conversion of factories, he remarked, will involve increased capital outlay, and a period of unproductiveness must intervene. Present values of raw material will probably not decrease, in view of the world demand, and the necessity for re-stocking will add to the financial strain. Many men will be thrown out of employment, and discharged soldiers will be returning. In addition, he suggested, there will probably be large immigration to this country.

Mr. Pease then proceeded:—"We cannot foresee all the difficulties of finance that are likely to beset us. In my opinion, the question of providing supplementary banking facilities in this country is very important, and should receive the consideration of the Government and the banks. If we had a bank of re-discount patterned somewhat after the Federal Reserve Bank in the United States, it would render legitimately available millions of assets in the form of high grade commercial paper, now lying dormant in the portfolios of the banks, and thereby greatly increase our financial resources. I think the Government should appoint a committee of experts to investigate the suggestion."

It is clear, then, that Mr. Pease makes his suggestion, having specially in mind after the war conditions. This fact has possibly been overlooked

by some observers, who have suggested that the war period has shown that the Canadian banking system, as at present constituted, has sufficient elasticity. It may be so, but it is clear that new conditions immediately the war ceases will not improbably impose a heavy strain upon the banks. With a hungry world clamouring for our food-stuffs, and the necessity imposed upon us of exporting these as largely as possible to maintain our financial equilibrium, grain credits will make great demands upon the banks' resources, and it is possible also that cattle and hog credits will involve increasing sums. At the same time, reconversion of factories, and restocking at high prices, largely from abroad, will result in heavy calls upon the banks from commercial and industrial interests. A considerable interval may elapse before it becomes possible to pay off the latter loans, either through the development of markets for manufactured goods, at home or abroad, or by means of the issue of securities. There are also possibilities that, subsequently, the banks will be called upon to undertake new obligations in connection with the upbuilding of our export trade in manufactures. In any case, it will be upon the banks that the burden will fall of tiding Canada over the period of comparative industrial unproductiveness, which will apparently follow the war.

There are two tests of a sound banking system—liquidity, the capacity to meet liabilities on demand, on a normal scale; elasticity, the capacity to cope with developments of industry and trade, while maintaining liquidity. Thus far, the Canadian banking system has admirably met these tests, and there is every reason that Canadians should be proud of its record. But it has been built up to its present position step by step, and there is no reason to suppose that finality in development has been reached. Now that the matter has been so prominently raised, it would certainly appear desirable that it should be investigated by the committee of experts, suggested by Mr. Pease, with a view to a definite settlement of the question whether circumstances after the war will justify or call for a further refinement in our credit system by the giving of greater mobility to high grade commercial paper through facilities for re-discount, or whether the most satisfactory results in after the war development are likely to be achieved through a continuance of the Canadian banking system upon its present lines.