

BANKS & BANKING

58

Conservation
of Banking Credits
for
the Purposes of
the War

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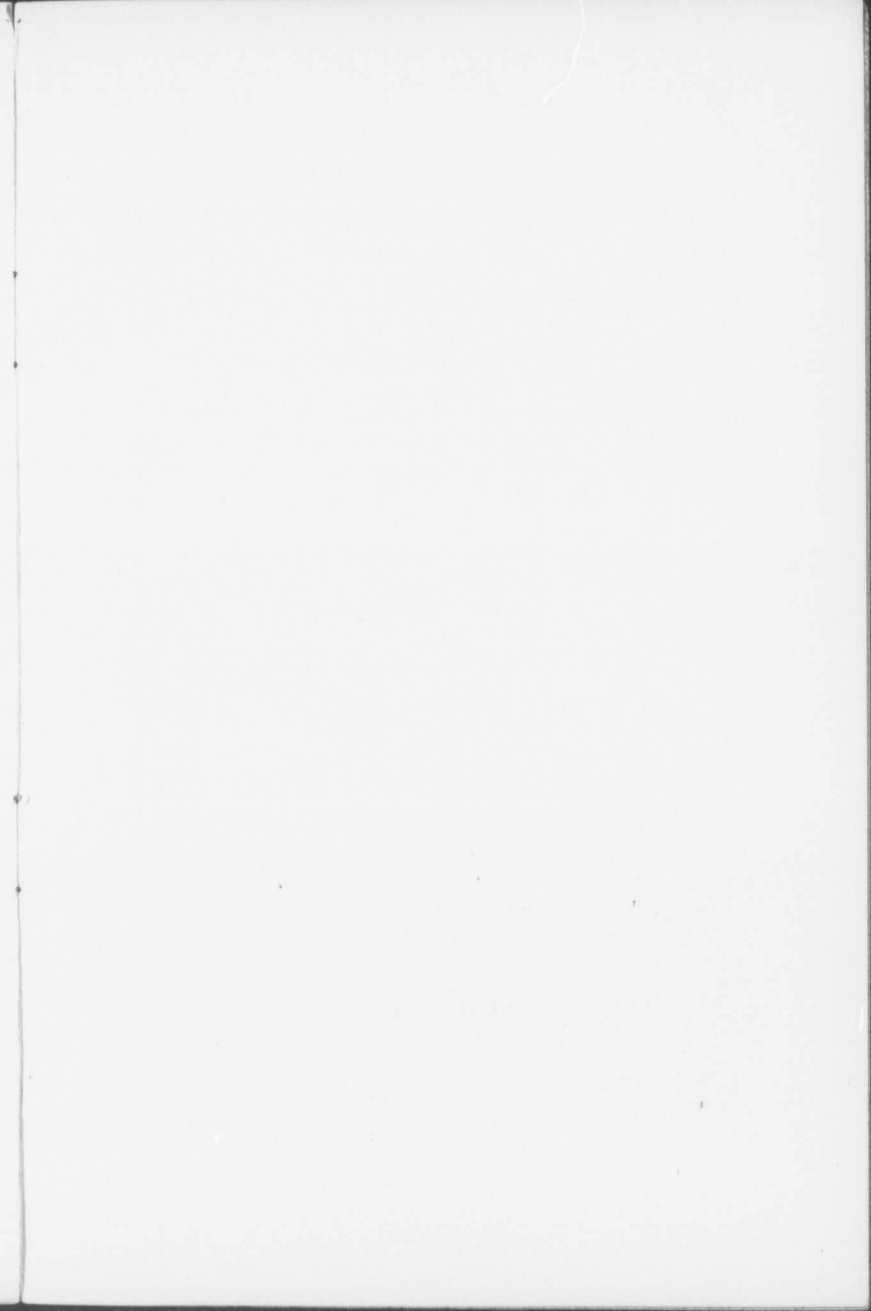
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A CIRCULAR
TO THE GENERAL MANAGERS OF BANKS
from
THE PRESIDENT
of
THE CANADIAN BANKERS'
ASSOCIATION
May 15th, 1918



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The Canadian Bankers' Association

PRESIDENT'S OFFICE

MONTREAL, 15th May, 1918.

Circular No. 210.

THE GENERAL MANAGER,

DEAR SIR,

The Federal Reserve Board at Washington has recently issued a statement with regard to the necessity for the curtailment and conservation of banking credits, due to the exigencies of the war, which is entirely applicable to conditions in Canada. The Canadian banks in co-operation with the Minister of Finance have been, it is true, for some time past endeavouring to bring about the results aimed at by the Federal Reserve Board; but the statement of that Board now issued so clearly and comprehensively, and on such practical lines, sets out the duty of bankers in the present emergency that a fresh consideration and a careful observance by Canadian bankers of these directions will materially aid in meeting the imperative obligations which the war has thrust upon us.

Adapting to Canadian conditions the arguments and recommendations of the Federal Board, your President respectfully commends to your earnest consideration the following:—

It is clear that if the war requirements of the Government are to be financed without undue expansion of banking credits, not only must there be some reduction of existing credits, but there will have to be applied a rigid check upon the further expansion of credit in directions not

clearly essential for the prosecution of the war and for the health and necessary comfort of the people. It is no more possible to superimpose upon the volume of pre-war credits the immense volume of additional credit required by the Government for war purposes than to superimpose upon the volume of pre-war production of goods the immense volume of additional goods required by the Government to prosecute the war. Our problem is to convert *less* essential into *more* essential credit, and to convert *less* essential to *more* essential production and distribution of goods. The saving of credit and money goes hand in hand with the saving of labour and materials in the programme of adjusting the business of the country to a war basis, and our best hope of avoiding competition between the Government and its citizens for credit, money, labour and materials, which can only result in credit and price inflation and higher costs of living, is saving.

As far as expenditures are financed by the sale of new securities they are scrutinized under the direction of the Minister of Finance. As trustee of the individual banking credit of the country, however, the bankers are charged with the duty of studying and understanding that programme, in order that each and every one may in turn educate his borrowers and the people of his community to the necessity of saving credit as well as food and other materials and may thereby conserve the credit of his bank for the use of the Government as far as may be practicable. It will be clear to bankers, also, that credit conservation is necessary not only for Government financing, but also for the prosecution and preservation of the banks themselves, individually and collectively, since undue expansion of bank credits leads inevitably to unsafe and unsound economic conditions, and no stone should be left unturned to keep our banking institutions sound and strong.

It is not the purpose to suggest the specific ways in which credit should be conserved, or unnecessary expendi-

tures curtailed; each banker must determine this for himself. The subject can only be discussed here in general terms, with emphasis on the necessity that while credit conservation should be undertaken promptly it should be carried out gradually, with reasonable discretion and with the least possible avoidable embarrassment to the business of individuals and industries. Proper education of borrowers and customers to the needs of the situation will accomplish far more than abrupt discrimination or pressure.

In the absence of any official classification of the more essential and the less essential things and enterprises it will be necessary for each banker in determining how he may do his share in the conservation of credit to use his own judgment. There seem to be, however, two clearly defined groups of loans:

- (a) Loans to facilitate production or distribution;
- (b) Loans for non-productive or non-distributive purposes

Loans for Non-Productive or Non-Distributive Purposes

Loans for non-productive or non-distributive purposes are usually loans for non-essential purposes. The following are types of this class of loan:

Loans for purchasing or carrying property, whether real estate or personal securities;

Loans for additions to or improvements of property not used in production or distribution;

Loans to provinces or municipalities for improvements.

By inquiring the purpose for which each new loan is required, and declining wherever practicable to grant loans of these classes, and by gradually causing existing loans of these classes to be reduced or eliminated, bankers could conserve credit without causing hardship and also give many people an impetus to save at a time when saving is of vital importance to Canada. But discretion must be

used in not forcing borrowers to reduce loans to an extent that is unreasonable or would cause avoidable hardship or embarrassment; much can be accomplished by sound advice and the exertion of moral pressure.

Loans to Facilitate Production or Distribution

The three main groups of borrowers for productive or distributive purposes are farmers, manufacturers, and merchants.

1. *Farmers.*—The farmers are being asked to produce more than ever before and loans for productive purposes must have the right of way. But the kind of loans which should be discouraged or declined are:

- (a) Loans for carrying over grain, cattle or other marketable products in the hope of obtaining higher prices and loans for the acquisition of additional property, unless the area under production is to be increased thereby and immediate results may be expected;
- (b) Loans for any construction not necessary to the productiveness of the farm within the year; and
- (c) Loans for the purchase of articles of comfort and luxury.

In sections where farming profits have been large an endeavour should be made to induce farmers to apply a good portion of them to the reduction of long-standing loans or to the financing of their seasonal requirements, thereby conserving bank credit.

2. *Manufacturers.*—Manufacturers who are making large profits should be urged to reduce or extinguish their debts rather than increase capacity and output unless the industry is one which is clearly necessary to the prosecution of the war. All manufacturers should be urged to carry as small inventories as practicable; to eliminate from their products elements which add to its cost but not to its intrinsic value

and serviceability, or which are introduced simply for fashion or appearance; and to avoid as far as practicable introducing new styles during the period of the war.

Manufacturers whose product is not clearly required either for the prosecution of the war, or to maintain the health and efficiency of our civilian population, should be urged to assist the Government by adopting at least a part of their plants to the manufacture of articles clearly required for these purposes. Bankers would do well to scrutinize carefully the credits of those engaged in industries not clearly essential for those purposes since such industries are likely to be the first ones to suffer interruption from transportation, fuel or power embargoes.

The payment of large dividends by manufacturers, under existing conditions is strongly deprecated. It is highly expedient that the present abnormal profits, due to the war, should be conserved to ensure, as far as possible, the continuance of ordinary dividends, and to provide for the unforeseen contingencies that will arise during the reconstruction period after the war. There will then be large demands for capital for new industrial development.

3. *Merchants.*—Almost the same suggestions that have been made with regard to the production of goods by manufacturers may be applied to the distribution of goods by merchants, namely, reduction of stock carried, reduction or elimination of that portion of their stock consisting of articles of mere fashion or luxury and the substitution of plainer and more serviceable articles, and the avoidance of the introduction of new styles in clothing, articles of personal comfort, etc.

While it is impracticable to deal with the subject more specifically at the present time every General Manager is urged to assist in the movement and is respectfully invited to point out to each branch manager that the latter can have a part in thus promoting the national interests by—

- (a) Studying and understanding the economic necessity for the conservation of credit;
- (b) A careful analysis of each loan in his branch to ascertain those which are the least essential to the prosecution of the war;
- (c) Applying to each application for a new loan the test, "Is it necessary for the prosecution of the war or the health and safety of our civilian population?"
- (d) Discussion with other bankers in the same place or neighbourhood as to methods of credit conservation which it may be practicable for them to undertake;
- (e) Urging his local trade organizations and board of trade to study the subject and make definite recommendations for the conservation of credit and the conversion of less essential to more essential production and distribution;
- (f) Discussing the matter with his customers with a view to educating them to the necessity of keeping their demands for credit at a minimum;
- (g) Exerting his influence upon his neighbours and his municipality to reduce expenditures for improvements to a minimum during the period of the war. Postponement of every improvement not absolutely necessary for health and safety should become a national policy;
- (h) Acting always with discretion and reasonableness.

The conservation of credit and money will result in the saving of labour and materials which the Government needs for the prosecution of the war; and every improvement or expenditure which an individual, a corporation, or a municipality refrains from making during the war represents a requirement to be fulfilled when the war is over.

Merchants and manufacturers will readily understand that present saving is laying up for the future an important reserve purchasing power which they may count on during whatever period of readjustment may follow the end of the war; and it must be apparent to every banker that the larger the savings his customers make the larger the deposits such savings will inevitably create.

Yours truly,

E. L. PEASE

President.



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