

(September 21, 1914.)

The Financial Measures Adopted by Great Britain to Meet the Crisis Incident to the War.

BY MR. J. W. FLAVELLE.*

AT a special luncheon of the Canadian Club, held on the 21st September, Mr. J. W. Flavelle said:

Mr. Vice-President and Gentlemen,—Let me give you an illustration of the unpreparedness of Great Britain for the financial difficulties incident to the war.

On the 23rd of July—be good enough to note the date—on the 23rd of July, Sir Felix Schuster, one of London's great bankers, addressing the shareholders at the annual meeting of his bank, after a very interesting discourse concerning gold reserves said in substance as follows: "I believe I am warranted in saying that the Great Powers will see that the nearby Eastern trouble shall provide no occasion for war. And I think I may say to you that you may go home feeling reasonably assured that the bank's business will be carried on during the year under normal circumstances, and that you should expect to have corresponding returns for the business which will be done."

While he yet spoke Austria-Hungary was delivering to Servia the fateful ultimatum which produced such results upon the financial world that inside ten days every stock exchange in the world was closed, all international exchange ceased, the possibility of securing remittances from any other country to Great Britain—particularly to Great Britain under the circumstances—stopped. Each country wakened up to find it had to depend upon its own resources for whatever obligations it might have to meet in the near future. London was the centre of the disturbance. The greatness of its position and the extent of its influence as the banker of the

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world and the clearing house of the world was the extent of its embarrassment.

You know that an international currency has been established, expressing itself in bills of exchange, whereby the business of the world internationally is covered. But a mere fragment of the business of the world is done by the payment of actual money. It is covered by a system of credit extraordinarily elastic taking the form of bills of exchange, and in this respect London peculiarly represented the volume of it. Bankers and accepting houses in Great Britain for a consideration—and the consideration is estimated to be a sum of no less than 50,000,000 sterling a year—endorse across bills of exchange their acceptance guaranteeing that the bill will be paid in 10, 20, 30, 60 or 90 days.

You may realize the significance of these acceptances in relation to foreign business when I say that it is estimated that at any time, and I presume at this time, no less a sum than seventy millions sterling of German bills were housed in this way in London. That is to say, London bankers by their system of acceptances became responsible for the payment of seventy millions of German bills, if the Germans themselves did not pay them. It was the volume of this international currency outstanding and how to redeem it that caused the first deep concern and became the cause of the greatest anxiety with the London bankers.

The man on the street early gave evidence that he was getting uncomfortable, and on Friday, the 31st of July, and on Saturday, the 1st of August, if you had been at the Royal Exchange you would have seen a long queue of people reaching out from the Bank of England counters, and constituting a steady stream going into the Bank drawing gold in exchange for notes and in exchange for cheques, the purpose manifestly being to hoard it against the evil days which they feared were upon them. When the Bank closed on Saturday night there was as large a column of people still waiting to exchange their notes and their cheques for gold as there had been when the bank opened in the morning. The bankers met on Saturday evening. They had already been in session during the afternoon. There was a condition of confusion, almost a dazed condition in the magnitude of the crisis so suddenly thrust upon them. On Sunday morning, August 2nd, at one end of the city, there met at Westminster the Cabinet of Great Britain. The decisions which they would reach during the Cabinet meeting would determine the course of history, and upon no body of men in any nation ever rested a more serious and earnest responsibility than that little company who met

in the Prime Minister's house on Downing Street. There were tens of thousands of people in London who knew they were in session, men not often known to pray, who felt unconsciously that the fitting thing for them to do was to pray Almighty God that wisdom and understanding might be given to these men in the decision which they would reach. There were at the other end of the city groups of bankers, some in the Bank of England, some in the private offices of the banks, earnestly discussing what measures could be taken to avert the calamity which they saw ahead unless some provision could be made to meet it. And I may say, gentlemen, that in the decision which might be reached by these groups of men or the influence they might have upon the Treasury Department as to its decision, rested not only the safety of England but the safety of countries the world over. One thing only grew out of the confusion of the Sunday meetings. We must have a breathing spell. They agreed to ask the chancellor of the exchequer to extend the bank holiday over Tuesday, Wednesday and Thursday so that they might have an opportunity of pulling themselves together and determining what course could be followed, for they knew from the evidence of what had occurred at the Bank of England on Friday and Saturday that if the banks opened on Tuesday morning it would be impossible for the great joint stock banks throughout the country with their many hundreds of branches to withstand the demands which would be made upon them. They knew, moreover, that this immense body of acceptances which would continue to fall in day by day would well make a demand upon the liquid resources of the accepting houses which they would be unable to meet.

Lloyd George responded promptly. He granted the extension of the holiday for three days. The banks were directed to counsel together and to meet with him when they had any recommendations to make. During these days the men who met the chancellor in committee were struck with one or two personal characteristics. One of the noted ones was the man's self-effacement. He sought for no glory for himself. (Applause.) He sought for no recognition for himself. One of the early evidences of the measures which he had taken of the situation was found by the gentlemen who waited upon him, that Mr. Austen Chamberlain sat by his side. He crossed over to the other side of the House and he said, "I need your assistance." (Applause.) He went to Sir George Paish, the editor of the Statist, and said, "Paish, I want you to give up the Statist. No, I do not want you to give me two or three hours a day, I want you to give up

your position on the Statist for the time being and come into the Treasury Department and live there with us while we are dealing with these matters." And Sir George Paish gave up his position and came into the Treasury Department. (Applause.) While the bankers were in counsel concerning what measures might be taken the chancellor came in contact with a report which—by a curious coincidence—was presented to the House during the time that the trouble was accumulating. It was a report of a select committee upon what provision could be made by the nation whereby the service of the merchant marine could be secured to the nation in the event of war. With an unerring instinct the chancellor seized the salient points in the report that referred to marine insurance, insurance against war risks; incorporated them into a Bill, had them read in the House of Commons and passed in the House of Lords, and within twenty-four hours after the declaration of war the Government of Great Britain guaranteed to every owner of British ships of London register and certain standard, and every merchant who desired to use these ships from any port in the world to any great port in Great Britain or any port from Great Britain to any other port in the world other than those in the countries which were at war, the security of the Imperial Government against loss from the King's enemies in return for a premium paid which, in the Bill, was declared would not exceed five guineas per cent. as a maximum or one guinea per cent. as a minimum. (Applause.) In explaining the provisions of this Bill the chancellor told the House: "The purpose of this Government is to see that the business of this country goes on. We mean that the ships so necessary to bring food products to this country, to bring supplies for our manufacturing concerns and to take our manufactured products all over the world; we mean that these ships shall sail, and in so far as the King's enemies are concerned we mean that this State shall stand at the back of these ship owners and shippers provided they pay the premium which may be named." Within twenty-four hours after the passing of the Bill you could go to a suite of offices in the Holborn Hotel and you could receive a little slip of paper acknowledging the receipt of so many pounds as premium paid for risk against the King's enemies (naming the ship, naming the amount, of it) adding that the Imperial Government became responsible for any loss that might arise. (Applause.) This insurance policy was a stroke of genius!

The bankers waited upon the chancellor and they asked for two things: One, we want a general moratorium. Two,

we want a suspension of the Bank Act which will permit the Bank of England to issue at their discretion either five pound notes or under or five pounds and over with or without gold at the back of them. They advanced as the reason for the need of the general moratorium: "We are confronted with a wholly unexpected situation. We have an immense body—we do not know ourselves how great of outstanding acceptances. We cannot face the responsibility of meeting these without having time to prepare. We have great bodies of deposits subject to call. We want the option to rest with the banks whether they will give them, rather than with the depositors whether they will take them." The reply which came back, after the chancellor had counsel with those with whom he took counsel, was this: "We will grant you the moratorium with certain exceptions, and we will issue currency, not Bank of England in this instance, but we will issue currency of the Government of Great Britain; and the issue will be in one pound notes and in ten shilling notes."

Probably the chancellor was at his best in the presentation of this proposal to the House. Turning to first the one side and then the other he asked: "Did any of you gentlemen happen to see the queue of people last Friday and Saturday at the Bank of England?" And as you read of it in the paper you could feel the air of expectancy in the House as to what the character of the answer would be, and it came in very short form. "Mostly foreigners." (Applause.) And then he turned to the House and said, "Gentlemen, there are resources in this country sufficient for any difficulty of any kind which may be presented arising out of these unhappy conditions. There is a sufficient quantity of gold as the basis for credit if we wisely use and conserve it. I refuse to believe that there is any necessity for considering setting aside specie payment. But, gentlemen, any man who wants a sovereign for his use, let him have it and let him keep it, but not a half sovereign for any man to hoard. Don't play the foreigners' game." (Applause.) He appealed to a very deep instinct of the Britisher, his love as a good sport and his pride in national endeavor and his ringing statement: "Don't play the foreigners' game" had an extraordinary response throughout the country. When Friday morning came and the banks opened all over the Kingdom men who had gold brought it to the banks and put it upon deposit. (Applause.) The whole country settled down with confidence that the men in charge of her financial affairs were equal to the occasion. No man wanted money beyond his immediate requirements;

no man wanted to hoard it. Every man said, "We will play the game."

The joint stock banks, who are the great banks in England in connection with the commercial business of the country, came to the chancellor and said: "Now, see, Mr. Chancellor, you have listened to the powers that be, you have declared a general moratorium. But what have you done? You have tied up our liquid resources. No man need pay us a shilling"—"what are you going to do? What are we going to do when you ask us to carry on the business of the country?" And Lloyd George came back after counselling with his committee and said this: "You fear that you will not be sufficiently liquid to meet the business payments, that is the domestic payments, for the country's requirements. Alright! This is what I will do. The Treasury Department will deposit with the joint stock banks a body of this new Government currency upon their request and upon their covenant a sum equal to one-fifth of their deposits." And by one stroke he established a credit on behalf of the joint stock banks of the country to carry on the domestic business of the country of no less than a sum of two hundred million pounds sterling or a billion of dollars. (Applause.) In doing it he said, "I want the business of the country to go on, and you are receiving this help for the purpose of carrying on the business of this country."

This dealt with the domestic situation. But speedily the street was troubled over what were they to do—as Sir Edmund Walker knows so much better than I do and other bankers who are here—what were they going to do with the pre-moratorium bills. That is to say, if the business of the country were to go on, if grain were to come in, if bacon was to come in, if produce was to pass from all countries or if their merchandise was to go out, they must establish a market again for their exchange. There was no discount market in London. Everybody was afraid to discount a bill. Nobody knew where they were at. What did this resourceful man with his committee do? He went to the Bank of England and said: "You must establish a discount market. Tell the joint stock banks who are refusing to discount new bills because they have such a congestion of old bills to bring these pre-moratorium bills to you and that you will discount them and that you will discount them without recourse, so that the joint stock banks will be absolutely free from liability, and whatever you lose on the transaction the Government of England will pay." (Applause.) The tension had been so tremendous upon the bankers, and the difficulty of estimating the extent of their

ultimate liability upon the pre-moratorium bills was so great that when they learned they could discount these bills without recourse at the Bank of England they were like a lot of school boys let out for a holiday.

As the days went by there came rumors upon the street that some of the banks were not acting well, and it was reported that notwithstanding all that had been done in establishing a discount market and relieving the banks from liability upon pre-moratorium bills they were not buying bills freely. The chancellor in his place on the floor of the House said, reciting the circumstances, "This thing was done for the banks for the sake of the business of this country, and if they fail to carry out their obligations I will name them on the floor of the House." (Applause.) The joint stock banks came back with an ample reply, and said: "Mr. Chancellor, it is all very well for you to say you will name us on the floor of the House but look at the position. Your moratorium expires on the 4th of September. On that day there is an accumulated mass of these bills which have been accepted by the London accepting houses which will be presented to them for payment. Will they be able to pay them? We do not know whether they will or not, and you ask us to buy their bills when that great load is resting upon the market and our bills will come in after these bills and you ask us to do what no sane bankers will do." The chancellor showed the same resource in this that he had done in other matters. He recognized that probably he had been hasty in the statement he made on the floor of the House. This he did, at any rate. He went to the Bank of England and he said: "You send to these accepting banks and say this to them on behalf of the Treasury Department: 'Collect every penny you can from your clients on behalf of these acceptances which you hold and deposit in the Bank of England. Tell them that you will pay these acceptances as they mature due, and that whatever sum their deposits are short of the amount of the acceptances it will be a debt due to the Government of Great Britain to be collected one year after the close of the war.'" (Applause.)

Go, he said, to the joint stock banks and tell them this: Every accepting house is in precisely the same financial position as they were in prior to the war because the Government of Great Britain will stand in the breach in relation to these bills that are maturing due and see that the Bank of England pays them and will hold as a debt due against these accepting houses only a year after the war closes." The effect of this new move was that every reasonable excuse was removed from the joint stock banks, every obstacle was set aside which

interfered with a free discount business and the purchase of bills of exchange. This final act of the chancellor, succeeding the others, which day after day during that remarkable week or ten days' time, placed not only Great Britain but all the world under a debt of obligation to the Treasury Department of Great Britain whereby the finances of Great Britain were reorganized and re-established and through Great Britain the facilities for carrying on the business of the world were reasonably set in motion.

The effect of it has been surprising. I am only sorry a mere layman and man of affairs is stating this case rather than an influential banker like Sir Edmund Walker, but Sir Edmund Walker, I am sure, will bear me out in this: The remarkable effect of it has been that all over the world exchange has loosened up; all over the world trade has commenced to assume more reasonable conditions, and in Great Britain itself a great, wide discount market has been established, rates for money are low and resources are abundant.

Now, my time has gone by.

VOICES: Go on, go on.

I want to speak just for a few moments upon that which greatly concerns us, viz., the position in Canada. Let me preface what I say by this: that I have counselled with none of my friends in what I say. The opinion which I express is the opinion of a business man who has come in contact with certain phenomena and has reached a conclusion governing his own viewpoint. The fact that I happen to be the director of a bank or president of a trust company has nothing whatever to do with what I have to say and has no way influenced me in my judgment in reference to this matter.

A good deal of confusion seems to exist as to the remedies which were used in England being applicable in Canada. And it occurs to me that a good purpose would be served in a company like this if you would realize the difference between the conditions in the two countries. It occurs to me that you might just as soon expect to apply a remedy in Canada similar to the one that is used in England as you would expect that the remedy that you would use for one disease would be applicable to a disease as far removed from it as you could remove two diseases from one another. What is the position in England? Every shilling practically of the national indebtedness is owed by the Crown to the people of Great Britain themselves. That is to say, when Great Britain pays any interest or sinking fund they pay the interest and sinking fund to the people of Great Britain because they own the

Consols, which represents the national indebtedness of Great Britain. The people of Great Britain, however, have deposited in the post office savings banks of Great Britain no less a sum than one hundred and sixty million sterling, eight hundred million dollars, which is available and has been used by the Government. In addition they have deposited in joint stock banks in England alone a sum of one billion sterling, five billions of dollars, available for the commerce of the country. The people of Great Britain own all their railways, all the bonds of their railways. They own all that extraordinary and immense development of business enterprise in factories, in mines, in merchant marine, in shipbuilding establishments; all the vast capital required for all this work belongs to the people of Great Britain themselves. All their mortgage indebtedness upon real estate is supplied by the people of Great Britain. In the same way all their municipal indebtedness. Indeed, every investment of every kind of a domestic character comes out of the pocket of Great Britain on behalf of the people of Great Britain. But more than that, after they have supplied themselves with all the money they need, for all the operations of all their businesses, they have gone to the ends of the earth and have loaned or purchased securities of all nations for no less a sum than three billion three hundred million sterling or sixteen billions five hundred millions of dollars, bringing in six hundred and fifty million to seven hundred and fifty million dollars of revenue every year. (Applause.) This nation confronted with perplexities over night of a world-wide character because of her world-wide relations says: "In purely domestic matters we will declare a general moratorium; it will not apply to debts outside but to among ourselves until we can pull ourselves together and get a readjustment of our affairs." It is a matter not of that significance (snapping his fingers) to the world concerning the moratorium in Great Britain.

Look at our position: Every dollar practically of our national indebtedness, whether it be by Ottawa or our various provinces, is an indebtedness to people outside the country. I am quite aware that my friend Mr. Lucas and his predecessors have been successful in selling a certain amount of annuities in this country but for purposes of a broad statement, practically the entire national indebtedness is due outside of this country and one of the demands upon our resources is the payment of the interest due upon this national debt. Practically our entire railway system, bonds and stock, are owned abroad. No inconsiderable volume of our industrial

enterprises are represented both by bonds and preferred stock held abroad. Our mortgage investments have been possible through the sale of sterling debentures or through the receipt of trust funds sent from various countries abroad. The fact of the matter is the supreme duty officially—and I am greatly indebted to my friend the Treasurer for Ontario being good enough to be here to-day—the supreme purpose of every official body in Canada above all else is to preserve our credit. (Hear, hear and applause.) Great Britain had no credit to preserve. Every country in the world owes her. This country borrows money from every country that will lend it a dollar. (Laughter.) And the obligation that rests upon this country is to preserve that credit, for it is the life blood of this country.

Have you reflected what the balance of trade was against us last year? After we had sold all our produce, after we had given credit for all our bullion exported, every natural product of this country shipped abroad, what was our position? We had to pay three hundred million dollars more than we received. Of the three hundred million dollars one hundred and forty millions of it was interest for debts contracted. How did we pay the three hundred million dollars? We paid it in this way: We received it from the people who came into the country with money in their pockets, hundreds of thousands of immigrants, probably one hundred million to a hundred and twenty-five million. We received a certain amount of money from sundry people who sent remittances through banks and otherwise for investment, an amount hard to determine, and the balance we borrowed.

We want no moratorium, gentlemen, in this country. (Applause.) We want no discussion of moratorium in the Chamber, much less in the newspapers. We want no special session of Legislatures. We want to preserve the credit of this country by every man of us standing up and presenting a face that we can meet every obligation if we only behave ourselves decently. (Applause.) But it is vital to this country—I am not raising the matter for pleasantries—it is vital to this country to preserve your credit. It is the source from which you must draw the money. Must draw it, or we have to face that for which none of us like to stop to consider. What has happened during these weeks? Answering—I was not here and I am speaking from what I saw in the London Press—answering a request of the banks of this country the Finance Minister at Ottawa very wisely determined that he would make our bank bills legal tender, thereby

at one step securing the great body of the resources represented by the deposits of this country without impairment. Because, realize this: You gentlemen, business men who are doing business here are doing business with the deposits of this country, the banks being the trustees between the depositors and you, and if these deposits had been assailed or withdrawn to any considerable extent your bankers would have had to restrict your credit, therefore the Minister wisely said: "If anyone wants deposits pay them out in your bank bills. We will make them in legal tender." Furthermore he said: "If you want assistance in the way of circulation bring your securities to Ottawa and we will issue against them Government notes." That policy in relation to the country is very wise and very sensible. We have had in this country people who in the exercise of their judgment came to the conclusion that they could become wealthy without labor. They thought that the labor which other men expended might be turned into cash on their behalf and so they bought lands, and when they bought lands at \$2,000 or \$5,000 they marked them at 10 or 20 per cent., waiting for the other fellow to come and buy them.

A VOICE: 300%.

Somebody says 300%. All right, whatever the per cent. may be, until we had a steady ascending scale and by the same token this advance took toll out of every man who did business in this country and every consumer who bought a pound of supplies by reason of increase of rents. (Applause.) As this mounted up, sensible men knew that the end had to come; that when the bubble was pricked those who were the last in would be left with it. Every sensible man knew this must be the result. Even those who were engaged in the gamble were in a hurry to get out so that the next man would have the load. (Laughter.) Now, what has happened? They hear that in England they have declared a general moratorium whereby no one has to pay anything for thirty days and they say: That is the thing; let us have a general moratorium and we will not have to pay our indebtedness. (Laughter.) It has not occurred to them that perhaps the credit of the country was involved in their action. Look at the Province of Manitoba. If it were not for the seriousness in its possibilities it would be so ludicrous that you could hardly conceive of men who called themselves representatives of a Legislature doing what they have done. What have they done? They have said in Manitoba every debt due upon a mortgage, capital debt due upon mortgage, cannot be col-

lected; not for a period of six months. Interest that is due cannot be collected against the land; it may be collected against any other assets. They do not say, as will the Province of Ontario, that the courts will review each case and pass upon each so that in the case of legitimate hardship they may offer some remedy, but they direct this: everybody who owes any money on land will not have to pay a penny for six months. Then they turn around and say, "We want to borrow two million dollars for public works, and the Legislature has asked and authorized it." Think of a body of men who claim to be intelligent, the legislature of any country, any province in this country, saying on the one hand, "We repudiate our debt," and on the other hand, "We want you to lend us two million more dollars." (Laughter.) The pity of it all is that the reason for this kind of thing is founded in the selfish desire of men to get rid of the burden which legitimately belongs to them. (Hear, hear.) They do not mean to queer the credit of this country but they are so surcharged with the desire to take care of themselves that they forget everybody else. And it is wrong! What is the position of mortgage indebtedness? You owe eighty-five millions of dollars on debentures, sterling debentures, falling due at the rate of fifteen million dollars a year. The next due date is the 1st of November. The following due date will be the 1st of March. Every Scotch owner of these debentures has learned by letter that the Province of Manitoba means to delay the payment of interest and payment of principal under the provision of a special Act. What will happen the first of November? What is the reasonable thing to happen? The Scotchman will say: I want my money. (Laughter.) And as far as he is concerned he is not running direct against the mortgagor; he deals through the loan company. I do not care for the loan company. I mean I am not considering the matter from the standpoint of any interest whatever except the interest of the credit of Canada and people of Canada. (Hear, hear and applause.) Our duty officially is to conduct ourselves so that our credit is preserved. (Hear, hear.) Our duty privately is to play the game with good courage and bear the burdens of our fellows rather than ask them to bear yours. There has been far too much, I fear—disposition to make the first burden of this trouble rest upon the working people. (Hear, hear.) There are too many working people being dismissed. (Applause.) There are too many young lady typewriters being sent home. (Hear, hear.) A too great disposition to reduce the working staff.

I know sound economy calls for retrenchment but try it in some other quarter first. Let me say this, gentlemen: This trouble through which we are going is not a war trouble. This is a readjustment of the affairs of Canada that was inevitable with or without any war. (Applause.) And in the readjustment that is taking place let us play the part of men. If we have been foolish and entered into engagements that we cannot meet, let us take our punishment, no matter how bitter it is, and let us start over again—as many men must start over again—to learn that honest labor is the only basis that they have any right to expect success. (Applause.) We need all our resources to take care of one another, whether with or without war, we have a great body of people in the cities and in the big towns who are idle, who will need help. Let us be careful, as manufacturers, that we do not add to the list unduly by dismissing people who have been with us for many years. Moreover, let us bear in mind this trouble is not occasioned by our banks. A great number of us seem to have the impression that the only reason that we are unable to borrow all the money we need is because the banks are unreasonable and won't lend it. If I have left any impression upon your mind at all as to our position as a borrowing community as against Great Britain a lending community, I must have left upon your mind this view: That after all the amount of resources which we have liquid in this country are comparatively limited. What do our friends the bankers have to do? They are trustees to hold these liquid resources available for the need of this country, distributing them as best they may over the largest surface possible to accomplish the best result. Are they always wise? Not at all; they are not always wise any more than you and I are always wise. But this much I would like to say—and I have seen both sides for I am a borrower as well as having an opportunity of seeing other men's borrowings—let me say that in the discharge of our mutual obligations in this country not the least excellent part is borne by the bankers of this country. There are frequently contentions between them that are not worthy of their great position—jealousies, narrow and small (if they will forgive me for saying so) contemptible—but in all practical relationships between the activities of this country, with the limited resources which we have at our hand, the error, if any error, has been made by our banks, has been they have overloaned rather than underloaned. They have gone to the very edge of safety for the purpose of giving to the merchants and manufacturers the benefit of the resources

of the country, and this is no time to scold them. This is no time to romance about all sorts of measures promulgated by amateurs who think if they were in the saddle they would be able to meet the requirements of this country. If there is any need at any later time for modification of the Bank Act let it come up in the natural and proper way. Let us, as business men confronted with the problems associated with this country, face them with good courage, and with good purpose.