WILEY

Commercial Paper for Merchants, Bankers, and Investors. by Babson

Review by: Benjamin White

The Economic Journal, Vol. 23, No. 92 (Dec., 1913), pp. 588-590

Published by: [Wiley](#) on behalf of the [Royal Economic Society](#)

Stable URL: <http://www.jstor.org/stable/2221673>

Accessed: 22/01/2015 17:39

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at
<http://www.jstor.org/page/info/about/policies/terms.jsp>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Wiley and Royal Economic Society are collaborating with JSTOR to digitize, preserve and extend access to *The Economic Journal*.

<http://www.jstor.org>

approaches these questions, but also in marking the contrast between the commercial interest which dominates the administration of the Bank of England and the many kinds of influences which affect the policy of the Bank of Belgium.

In this way, by quotation and counter quotation, rounded off with a curt and dispassionate expression of his own views, M. Van Elewyck covers a very wide field in history and theory; the origins and growth of the Banque Nationale; the political influence of the State and the detailed administrative policy in each department of the bank. The chapters on L'Escompte, L'Encaisse et le Portefeuille étranger, and L'Émission, will probably be of the greatest interest to most economists, but the excellent analytical table of contents enables one to pick and choose with great ease.

There is, I think, nothing of importance in this work which economists would wish to dispute; one leaves it with a comfortable sense that orthodox economic theory has been more firmly established by the testimony of a man of business. It is not M. Van Elewyck's purpose to enrich economic theory, and he does not do so, but he has his "pocket full of sixpences," and the occasional gleam of a coin does much to relieve the subject of a natural dullness, from which neatness of exposition cannot entirely save it. It is a sound, well conceived, clearly written treatise, in which the author's conclusion in favour of greater freedom does not haunt the pages as an obsession, but arises spontaneously from each chapter of the evidence. To economists it gives facts of considerable interest, copious statistics, and a clear insight into banking administration of a kind unfamiliar in England. To "libéralisme économique" it can be nothing less than an arsenal.

F. LAVINGTON

Commercial Paper for Merchants, Bankers, and Investors. By Messrs. BABSON and MAY. (Massachusetts: Babson's Statistical Organisations. London: Effingham Wilson. 1913. Pp. 246. 8s. 6d.)

THE primary object of this work, specified in the preface, is to assist the officials of the twenty thousand banks of the United States of America in the task of selecting the best commercial paper. Only a portion of the contents deals specifically with this subject; the greater part of the volume is occupied with historical and other details connected with banking.

The advice given as to the selection of such paper is sound,

and suited to the local conditions which are likely to confront those charged with the responsibility in the United States of America of holding it as a security ; though no written instructions however, wise and clear though they may be, can take the place of common sense and a practical working acquaintance with commercial banking.

The book has a wider interest than the preface suggests, for the collaborators have appealed to a much larger circle of readers, to all appearance, quite unconsciously.

In the course of their attempt to dry-nurse the budding banker, they have laid bare one of the deep-seated causes, which, on several occasions, have rendered the United States of America the theatre of financial crises, from which the banking centres of other great countries have been, fortunately, almost free—except in so far as they have suffered secondarily as a consequence of American imprudence. The disease, if one may term it so, may be diagnosed as the custom of putting commercial paper to a use severely banned in other banking communities. Commercial paper in Europe, certainly that which is not secured by collateral, represents goods actually sold, for which it is not convenient for the purchaser to pay until a reasonable time has elapsed to allow for transit and delivery, and for the whole or partial realisation of the goods. The writers of this volume divulge incidentally that a large proportion of commercial bills in America are created to cover the period within which a *possible* sale may be effected. In other words, banks afford facilities to the manufacturer or merchant to embark upon speculative business, by discounting such paper, and providing him with the wherewithal to repeat the operation. If, in England, Messrs. Huntley and Palmer draw a bill upon the Army and Navy Stores, the bank that discounts the bill knows perfectly well that the biscuits, the value of which the bill represents, have been actually sold ; but the writers suggest that in the United States it lies within the power of any manufacturer in good repute to create bills and obtain funds from his bankers against them on the assumption that his goods will have found a purchaser before the bills fall due.

It needs no great flight of imagination to picture the inevitable result that must ensue when over-supplied markets, or disastrous harvests, check, for a while, the national prosperity. The banks find that they have exhausted their resources in furthering the optimistic plans of their clients, and in the frantic scramble to obtain currency, panic and its attendant evils have full sway. Losses have to be cut and goods sacrificed, with the result that

the manufacturer is crippled and his fall involves a loss upon his bank, which should never have assumed anything in the nature of a partnership with him in his trading risks.

The authors do not appear to attach sufficient importance to the personal equation in commercial bill transactions, for they throw out a suggestion that specially unsecured risks could be met by a system of insurance. The present writer, during his thirty years' experience in the City of London, has known men whose means have been in extreme inverse ratio to their characters for probity, and yet whose written engagements were preferred to those of incomparably richer men. No insurance company can possibly discriminate on matters so delicate, but a bank manager of judgment and experience can discern such a risk to a nicety. In the old days of private banking in the North of England, many a now prosperous and flourishing business has been brought into being and fostered by the banker's individual and personal knowledge of the character of the borrower.

This volume is peculiarly topical, in view of the United States Government's desire to reform currency arrangements in America. It is possible that banks may be federated and empowered to inflate the currency in time of pressure, by certain expedients involving the use of selected commercial paper as part-security for creating additional currency notes. Artificial expansion of currency bristles with danger, and the selection of commercial paper for such a purpose becomes a consideration of the first magnitude.

In an educational work, such as this volume is intended to be, the careless punctuation, frequent errors in spelling, and sometimes irritating lack of lucidity, are blemishes, the more noticeable, because the printing, paper and binding are excellent. Moreover, Sir Edward H. Holden, when quoted as an authority, should have his Christian name inserted correctly, and a great institution possessing a world-wide reputation, such as the Deutsche Bank, is entitled to have its name spelt with accuracy.

Evidently both pains and care have been taken in the compilation and presentation of facts, so as to form a concise book of reference in regard to the banking practices of the chief European nations, as compared with those of the United States. The frank admission of defects and disadvantages in those of the latter country gives to the work an impartial character which adds to its educational value to officials connected with local banks.

BENJAMIN WHITE