

The People and the Bank Act

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NO reasonable person can question the Hon. Mr. White's transparent honesty in dealing with the revision of the Bank Act; but, at the same time, it must be permitted to every thinking man to express a reasoned judgment on the outcome of his proposals. Indeed, the Minister of Finance invites fair criticism; and searching criticism he should have.

It cannot be gainsaid that this legislation is a distinct advance over the existing conditions. Concerning that aspect of the problem I have already, in the pages of the *Courier*, done full justice. But the Bill falls far short of what the people wished and expected. It is not a people's Bill; it is a banker's Bill; and should be thrown on the scrap-heap of forgotten things in favour of a really adequate and comprehensive measure.

As clearly and succinctly as may be let us first consider the proposals for a new scheme of inspection. Provision is made for a compulsory audit throughout the whole field of Canadian banking. It is made obligatory on the shareholders to appoint, at each annual meeting, an auditor who shall have the right of access to the books and accounts, cash, securities, documents and vouchers of the bank. He may require of the directors and officers all requisite information for the proper discharge of his duties. In regard to branches and agencies it will be sufficient if the auditors have access to the returns, reports and statements; but, in addition, the auditors may visit any branch or agency for the purpose of making a thorough personal inspection of their financial standing. In addition to making an annual statement to the shareholders the auditors must meet once, at least, during their term of office, to audit the accounts of the head office. Finally, the Minister of Finance may, at his discretion, require any auditor so appointed to make a special examination whenever he deems such a procedure necessary. There is at least this merit in the proposed plan, that the Government recognizes the need of supplementary inspection of banks in Canada. And with good reason.

The Minister draws comfort from the fact that this provision has been modelled upon the Joint-Stock Companies Act, passed in the United Kingdom in 1908. But once again let me draw attention to the fatal defect in such futile reasoning. The experience of one country, and its social structure, can not, as a rule, be made available for purposes of direct, practical legislation in another. The British shareholder attends the annual meeting; takes part in it; and criticizes or defends as the case may be. Let the Minister make but a cursory

perusal of the columns of the *London Economist* or the *Statist*, and he will see that we have stated the precise facts. Now, how is it in Canada? This nation is not highly industrialized and commercialized, as is Great Britain. Very few persons here, as stock-holders, can intelligently take part in the annual meetings of corporations where special and detailed knowledge is required; and, therefore, naturally, the direction of affairs falls into the complete control of the directors and large stockholders. Not only is this brought about because of the reasons stated, but also through the disabilities imposed by the great distances to be travelled. In this country stockholders are scattered from the Atlantic to the Pacific; and it is, therefore, well-nigh impossible to assemble them in annual meeting, even if they so willed. And no mention has been made of those stock-holders residing abroad, in the United States, in the United Kingdom, Germany, Holland and France.

NOW, if what has been said is true, it is as plain as a pikestaff that directors will really control the appointments of auditors. Yet in all fairness it should be said that, notwithstanding this, an advance has been made over the present system of complete freedom in bank inspection. Nevertheless, the great danger remains that it will not be possible to secure auditors who will be able to stand up against the pressure to which they may, very conceivably, be subjected by the directors and chief executive officials. And, moreover, if that were not true, if one could count upon securing auditors with sufficient self-reliance and backbone to oppose powerful interests, the fact still remains that, under the provisions of the Bill as they at present stand, there can be no recourse in case of fraud or speculative banking, until report is made to the shareholders in annual meeting. If the present measure is to stand, a qualifying clause should be added making it obligatory upon the auditors to report at once any illegitimate banking transaction to the Bankers' Association or to the Minister of Finance. And to that end, if the proposed plan is to be worth while, an additional deputy-minister of finance should be appointed, who would give all his time to this work.

The Hon. Mr. White defends his measure, with special reference to a shareholder's audit, on the ground that, as far as he knows, there are no cases on record of collusion between the directors of banks and the auditors; and that the losses have taken place principally at the head offices, through the general manager or some head official going

wrong. But he does not take the trouble to lay emphasis upon the fact that there are many cases on record where, had the directors done their duty, no losses would have occurred. Many directors of Canadian banks are men with wide interests and heavy personal responsibilities; and hence, at times, they do not give that serious and careful attention to the bank's affairs which their high office demands. It has been because of carelessness, or worse, on the part of directors, that several Canadian banks have been exploited and plundered by dishonest officials. One of the best features of the present measure is the imposing of severe penalties upon directors where contributory negligence on their part can be shown.

The Minister of Finance, as has been intimated, has invited full and free criticisms of the measure; and he is getting it. There appears to be a decided demand within the party itself, as expressed both through the press and through members of Parliament as well, for some scheme of Government inspection. On the whole, too, it may be fairly said that such reflects the attitude of the people at large, regardless of party affiliation.

The problem of securing properly qualified men, free from the taint of political influence, would be a serious one in any scheme of Government inspection which might be adopted. The *Toronto Globe* professes to see little danger here, and urges that permanent, capable officials could be appointed under civil service rules. Auditors or chartered accountants could undoubtedly be so procured; but what is desired is men who, in addition to being able to test the accuracy of the books, are also capable of judging the quality and soundness of the assets held. It would be difficult to appoint a board of government examiners equal in point of ability and experience to the staff at present possessed by each Canadian bank. In the United States, where Government inspection obtains, the inspectors have been able for the most part to see that all the legal requirements are met—that the legal reserves are held; that the ten per cent. limitation on loans is complied with; and all other obligations satisfactorily fulfilled. But, as every informed man knows, bank inspection in the United States is superficial; banks have failed, and failed disastrously; and large amounts of capital have been lost. The truth is that a bank may meet with every requirement of the letter of the law and yet be resting on a rotten foundation. This does not mean that banks should not be made to obey the law in every particular; but it does emphasize the futility of a merely formal inspection.

Government inspection, however, would be decidedly worth while, and would work to better advantage than a once-a-year audit, provided the right kind of men could be secured. That such men have not been appointed as inspectors in the United States is no complete argument against the possibility of securing them in Canada. And, although

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