

therefore, of the highest importance that our banks and other financial institutions, their methods and management, should be so conducted as not only to inspire but fully merit the fullest measure of public confidence.

After stating the difficulty of giving detailed comparisons of two banking systems in a brief address he proceeded to state

#### THE CAPITALIZATION SYSTEM

of the banks in Canada and United States. There are two kinds of chartered banks in the States, viz. those under State Laws and those under the National Banking Act. Both may issue notes and transact a general banking business, but as the circulation of State banks is taxed, they are practically prohibited from issuing notes. In Canada there is only one kind of chartered bank, all of which operate under the Bank Act of the Dominion. Since 1867 the provinces have ceased to have the power of legislating on currency and banking.

An American National Bank may commence business on a capital of \$25,000. In Canada the smallest capital on which a bank is allowed to do business is \$250,000. This sum must be deposited with the Dominion Government before a bank can issue a note or commence business. With this deposit a new bank must place a list of the subscriptions to its stock to extent of not less than \$500,000. Before a Canadian bank can begin operations it must have subscriptions to its stock of \$500,000, which gives a liability of the subscribers to extent of \$1,000,000.

This system distributes the stock liability amongst a considerable number of shareholders, and, in Mr. Stewart's opinion, "the wider the distribution of a bank's stock the better for the public."

#### EVILS OF SMALL INDEPENDENT BANKS.

In the United States one man frequently controls the entire capital, which is easy when it amounts to only \$25,000. The American system of regulating a bank's capital by the population Mr. Stewart justly regards as responsible for the creation of hundreds of weak and badly managed banks all over the United States. After a country store-keeper has saved \$20,000 or \$30,000 he is ambitious of being president of a bank, so he starts one with his capital and gives his family or friends enough stock to qualify as directors. By the American system a man who has done nothing all his business life, but run a small country store, becomes a self-elected bank president, with all the legal powers and functions of a great New York or Chicago institution, and his bank has no more capital than \$25,000. He takes deposits, does a general banking business, sails gayly along until some customer fails, or his safe is robbed, or a clerk clears off with the available cash. Collapse follows, to the distress

of the founder of this mushroom institution and the sorrow of the community which trusted him. The mischief is, that, when one of these picayune American banks fails the event is proclaimed all over Canada as, "Another Bank Failure," and the public confidence in banks is liable to be weakened by an incident which is of no significance whatever, except as another illustration of the wretched system of bank organization which prevails in the United States.

Even in the largest banks in the States the number of shareholders is comparatively small. The leading banks in American financial centres, in Mr. Stewart's opinion, are very ably managed, as their officers are trained bankers who owe nothing to the National Banking system. "An indifferent system will not prevent good management neither will a perfect system save a bank from destruction through bad management."

The 33 banks in Canada are owned by 25,000 shareholders, who afford the public a total security of over \$169,000,000, by the provision of double liability, for each \$100 of subscribed capital involves a liability for a second \$100 in case of need.

"American banks in the smaller towns are so susceptible to local conditions that a trade depression in a comparatively small area often brings them into difficulties. In Canada we have such a diversity of crops, climate, industries and resources that no merely local depression, however severe, could seriously affect any of our banks. So much for the difference between Canadian banks and those in United States in point of capital and numerical strength."

#### THE BRANCH BANK SYSTEM.

Mr. Stewart went on to show how much safer and in all respects more advantageous was the branch bank system which gives the smaller communities the benefits of a strong bank with connections all over Canada, than the plan of merely local banks of a very fragile character, usually without the necessary banking resources for a progressive community. In Canada the poorest district shares in the use of the financial wealth of the richest. The branch bank system equalizes rates throughout the country, whereas in the States rates for money vary from 2 to 6 per cent. between the Eastern centres and the Pacific and Southern States. The branch bank system enables a higher class of banker to be placed in charge of small offices.

#### CIRCULATION. TWO CURRENCIES SYSTEMS COMPARED.

As to the absolute safety of Canadian bank notes there is no room for question. As stated by Mr. Stewart, "the banks have assets amounting to \$896,540,000 as security for \$76,889,440 of circulation."