

# Opinions on Our Banking System

## II.-- More Opinions from Farmers and Replies to Mr. Brown

### LUCID REPLY TO MR. BROWN

I have read with interest the two articles in The Guide on "Rural Banking Credits," from the pen of Vere Brown. While we cannot do less than agree with his contention, that a bank cannot lend money to a farmer under circumstances which would preclude the possibility of securing a loan elsewhere, yet there are several points in these articles which will bear analysis.

Mr. Brown claims at the outset of his article that the banks are fulfilling their function towards the farmers in the west, and advances in support of this statement the large amount of credit, to the amount of \$75,000,000, extended to farmers and ranchers in the west, stating as a further evidence of the liberal policy of the banks, that the three prairie provinces contain no more than 150,000 farmers. Just how much of the \$75,000,000 has been loaned to bona-fide farmers, and what proportion their numbers bear to the total number quoted above, he does not say. What he does say is: "that the aggregate amount loaned to farmers . . . is always limited only by the amount of acceptable farmers business offering," and since the banks are the sole arbiters in the matter, the acceptable business can only correspond with their inclination to lend.

I agree with Mr. Brown, when he states that the farmers have, in the past, suffered from too much credit of the wrong kind, but that they have ever been granted too much credit of the right kind has yet to be demonstrated.

Mr. Brown states that the banks are in the position of trustees for the individuals to whom deposits belong. This cannot be true, since the law affecting the relations of banker and depositor, is that of debtor and creditor, this having been definitely laid down in a privy council case, *Toby versus Hill*, as long ago as 1848. The banker is not a trustee responsible to the depositor for the manner in which he uses his money. The banker keeps what profit he may make with the money deposited and should the bank suspend payment, the depositor ranks with the other creditors, so that the banks have no further responsibility towards their customers than to pay them their regular rate of interest on their deposits and their money, so long as solvent and, if such be the arrangement, on demand.

Mr. Brown recognizes the fact that ability to repay is the pre-requisite for credit. Security, reputation (not character) together with the other cardinal virtues mentioned by him form a good combination when applying to the bank for a loan.

The hypothetical cases given by our author are scarcely to be taken as a fair criterion of the class of farmers who require assistance from a bank. If the hypothetical Smith and Brown, to take two, could not produce in any given year more than \$600 worth of say, grain, on a quarter section, they would be a mighty poor risk, even for a banker. Moreover, in the cases given these farmers have passed the stage where they would require any financial assistance, except in the case of an abnormal crop failure. We have suffered in Canada during the past sixty years from this evil, the continued protection and assistance of industries after they have passed the infant stage. The farmer who is on his feet should be prepared to help, not be looking for help. But of course the banks, as do the politicians, work on the liberal principle of "To him that hath shall be given." It is when a man is struggling that he requires the life line. It is a well known fact that this is the time the bank machinery fails, and it is for this reason that the farmers in many instances turn in disgust from the sickly platitudes and better farming coming from the bankers. If advice is the only thing the bankers can offer the farmers at the critical period of their life then it is time that the whole business of rural credits were taken out of the hands of the present banks and centered in the government or in the farmers themselves.

Mr. Brown should be more specific when he states that: "In no end of cases," the farmers have taken refuge behind the exemption laws and transferred their land to their wives. It is to be hoped also that the farmers won't take Mr. Brown's advice re "the simple lien or pledge" too seriously. He scores the exemption laws saying: "the intention is good, . . . (and I hope the retention will be made good for in many instances this is the only protection afforded the struggling young farmer), but the fact remains that it curtails the credit of the farmers." The act renders it possible for many rogues to cheat their creditors therefore places the honest men on the same plane as the rogues by removing the exemption. This, all over the west seems to be the feeling, treat all men as rogues until you find them to be honest, and in some instances, after their honesty is discovered, if they remain poor continue to treat them as rogues.

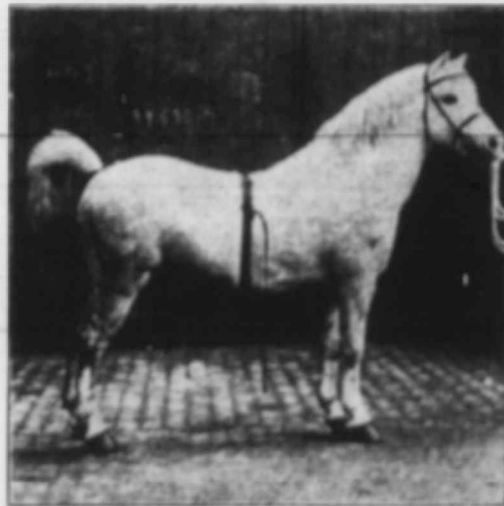
It would be an ideal state of affairs if the farmers were to use the banks as their sole credit house, but it would be interesting to know just how many far-

These letters are further opinions on criticisms of, and replies to the articles on "Rural Banking Credits," by Mr. Vere Brown, Superintendent of Western Branches, Canadian Bank of Commerce recently published in The Guide. These are particularly able replies but had to be held over from the first issue on account of their length. We would like to have the opinions of other readers on this subject.

mers, measuring by the bank standard, would be able to avail themselves of their opportunity in this respect. Mr. Brown all thru his article, with the exception of the paragraphs on the homesteader, writes of a class of farmers, who are in the main, only nascent. When he states that it is not the function of a bank to lend money without security he sums up his whole case and enunciates the sine qua non for credit from a bank.

### The Heroic Country Banker

A farmer should not be asked to pay a higher rate of interest on a loan than the money will earn in the course of his business, in fact a margin should be left for profit. The banks pay three per cent. on deposit and charge us eight to ten per cent. on loans; is it fair? If the banks cannot operate on a smaller margin, then let the government or the farmers do it. Mr. Brown gives five reasons for the high rate of interest in the west. Some of them are puerile. For instance, the balance sheet and the profit and loss statement presented by the best commercial customers and the utter absence of balance sheet, etc., by the best farmers. This is specious reasoning since it is a well known fact that the best farmers are, generally only the best because they keep books and can



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strike a balance any time during a given period.

We are given a picture of the bank manager, sleeves rolled up, perspiration standing in beads on his fair Romanesque brow, expectancy and anxiety illumining his countenance, as he endeavors laboriously to extract by devious ways and means a statement, at once concise and precise, of his would-be client's affairs. Yet we have never heard of a country bank manager breaking down under the strain, nor yet have we heard that he receives proportionately more for his labor than his brother manager in the city, who has the comparatively easy task of lending sums of \$100,000 and up. "Tis the time, my friends, required to write 100 loans of \$1,000 each that causes the high cost of loans in the country." Strange, why should this operate to increase interest rates when further on in his article Mr. Brown states that a shrewd banker would rather have one hundred customers borrow \$1,000 each than one customer borrowing \$100,000. "One hundred friends for his banks instead of one." If this be so then the low interest rates should be where the 100 borrowers are. It does take a lot of believing that the banks are so philanthropic as to operate the western country branch banks at a loss, just to oblige the farmers. But Mr. Brown has the proofs and so perforce it must go down.

The co-operative credit associations might ameliorate conditions, but it would only be a case of transferring the risk from the bank to the members of the association. No doubt the interest rates would go down, since the bank in every case would have gilded security in the collective liability of the mem-

bers. By all means let us have co-operative credit, but let it come thru some channel where the profits if any will be returned to the people.

If the Canadian banks are capitalized too high it cannot be the fault of the farmers and why they should be asked to contribute towards the support of such highly capitalized institutions is beyond the ken of thinking men.

With Mr. Brown's remarks anent insurance everyone will agree they can scarcely agree with the fact of the bank manager's acting as agent for the insurance companies.

"Learn to shape your affairs so that you can obtain all necessary credit from your bank," sounds well as a slogan, but who is to help the farmers to get into shape so that they can apprehend their opportunity; when they are in such shape it does not matter so much, they will be attended to.

"There is nothing wrong with our banking system," we are told, and conclusive proof is brought in from the east. The farmers there don't complain. "What's the matter with you, Mr. Western Farmer? It is you who are wrong." Here, if anywhere, east is east, and west is west. Did the eastern farmer never complain or has he just reached the stage where complaint is unnecessary? Has the western farmer to be condemned because he is progressive, because he wants to enjoy some of the fruits of his labor now, and not leave it all to posterity? He does not want to wait 100 years in order to achieve his purpose. Here and now is his cry. Can it be that the farmers, livestock men, newspapermen, article writers, politicians, are all wrong about this matter, and that the banking system as at present constituted is just about perfect, for the needs of agriculture? Can it be, that we as farmers, have again been chasing a will-o'-the-wisp, that we have been duped again. We think not, in spite of the reiterated unqualified statements of Mr. Brown.

What we want in the west and we want it quick, is a system that will help the under-dog, not further strengthen the upper, tho he, if he be well behaved can be left to his own devices. Our banking system is aristocratic. Let us try a democratic system. Banking can be done by mail and if the three prairie provinces followed this program to the logical conclusion, and established a rural credit system in each of these provinces, there is no occasion why loans, both for long and short terms cannot be made by mail under a contributory system, on the recommendation of an inspector, farmers' association, or other body, where the only pre-requisite in the applicant for credit will be honesty, well directed industry and thrift, leaving the question of security in abeyance.

Work industriously, fellow farmers, for government or farmer controlled credit companies, both for long and short term loans. It will cost you something to inaugurate the scheme, but the benefits to be derived will out-weigh, immeasurably, the cost.

J. A. P.

Bank.

### THE NEW SETTLER PROBLEM

I have read several times with the greatest interest Vere Brown's recent articles on Rural Banking Credits. Mr. Brown's handling of the subject, and his ability in discussing and arranging his subject matter certainly cannot be questioned, and it would be a hard matter indeed to attack his theory of credit—as such. But anyone who has lived in this western country and been at all in close touch with its conditions and its people cannot help feeling that the articles in question, especially in so far as the application of the principles laid down are made to convert conditions prevailing in the newer parts, clothes a heresy which, if put into actual practice would temporarily stop colonizing progress, and compel the people of the country to stay where they are, whatever their means or condition.

Perhaps the two oftentimes asked questions of the day are: How can we keep the farmer boy on the farm? and: How can we establish the city boy on the land? If we look closely for the reason for these two questions it is not hard to find and it is this.

The nearest approach that can be found to the actual production of wealth, production as opposed to conversion, is to be found on the land. The laborer in a factory does not produce, they take raw material and convert it. It is therefore to the interest of as many individuals as can, to become employed on the land, and it is also to the interest of every country which has within its boundaries any non-producing soil to see that as many of its citizens as it is possible to induce to do so, go on the land and take part in that production in some way.

The conditions as existing in most of the older communities are such that by the time the farmers' sons are grown men they are forced to a choice of either partitioning up the old homestead, becoming laborers for others, or getting out on the frontier, so long as any undeveloped country remains. Usually

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