EXTERNAL EXAMINATIONS OF BANKS.

With reference to Mr. McLeod's second letter, which is inserted in another page of this issue of THE CHRONICLE, we might draw attention to the fact, that in comparing the losses from bad banking in the United States and Canada he has selected what may be called the cream of the United States banks against Canada's whole system. The national banks comprise roughly about one-third of the banking institutions in the States, and they carry about one-third of the deposits. If the statistics of failed state and private banks are examined it will be found that they make a worse showing by far than the national banks; and they too are subject to external examination. For instance, from 1864 to 1896 some 1,234 of these banks failed and their creditors got only $100,088,726 of their claims which amounted to $220,629,988. In the Comptroller's Reports the amount of dividends to creditors since 1896 is not given, but, judging by the amount of nominal assets as compared with total liabilities the creditors have not fared better on the whole than they did prior to 1896. When the creditors get less than their claims it can safely be assumed that the losses to stockholders have been enormous.

One reason why the national banks make the better showing is because it is not quite so easy a matter to start a national bank as it is to start a state bank. The minimum of paid-up capital required is $25,000, whereas $5,000 or $10,000 suffices for a state bank. Then the Comptroller of the Currency is more careful about allowing a bank charter than are most of the state executives. It will also be conceded that the examination system for checking up the national banks is more effective than that in vogue in many of the States But after all, as Mr. McLeod will doubtless admit, it is very difficult to get a satisfactory or even fair basis on which to compare the United States results with the Canadian.

We prefer to look to Scotland and England and learn a little, and then take account of our own peculiar Canadian conditions. Before doing so, however, we take exception to Mr. McLeod's statement that the chief cause of the diminution in number of the Canadian banks is "fraudulent failure." Take the last seven years and it will be found that eleven banks went out of existence. Six of these:—Halifax Banking Co., Merchants Bank of P.E.I., Peoples Bank of Halifax, Peoples Bank of New Brunswick, Western Bank of Canada, and Crown Bank of Canada were merged or absorbed, and only four failed—the Ontario, St. Hyacinthe, St. Jean, and Yarmouth. One—the Sovereign—went into liquidation, so that the greater part of the diminution during their recent years would not have been due to or come under the designation of "fraudulent failures."

And we can safely say that the signs at present point rather to a continued diminution in the number of our banks by way of mergers and absorptions rather than by failure. For our own part we think the allusion to a "colony decimated by pestilence" to be rather far-fetched and out of place. Everybody knows that the survivors of a colony thus decimated are weak and miserable, being scarcely able to crawl around; but suppose a few of the existing Canadian banks were to go down, does Mr. McLeod believe for a moment that the Bank of Montreal, and the other important banks that survived, would be in that deplorable condition? We will venture to say that he knows very well that they would not.

We do not think that Mr. McLeod has overturned our contention that there would have been few, if any, failures among the Scotch banks since 1879 even if no external audit had been instituted. In our opinion Scotland's immunity since then has been due to the fact that the banking business has been in the hands of a few strong and solidly established institutions—the Bank of Scotland, the Royal Bank of Scotland, and the half dozen others that now exist. And, with regard to the effect of the Act of 1844 in preventing the organization of new banks, we would ask Mr. McLeod what would be the prospects of organizing a new bank in Canada, supposing the existing banks were given a monopoly of note issue? The answer is easy: The door would be shut—for the new banks, without the right to issue notes, would be disastrously handicapped.

We would mention another thing. The English and Scotch banks are not obliged to publish full and explicit statements of their position once a month, with a prison penalty attaching to wilful misstatements. That is one reason why external audit is more in place in the United Kingdom.

And there is another point. Mr. McLeod like his brother bankers, doubtless felt the force of the pressure from public opinion when the Ontario was in difficulties. There was then and there is now a strong feeling throughout the country that the strong banks should take measures to preserve the financial equilibrium in a crisis of that kind. Everybody knows that to preserve the financial equilibrium in such crises means to assume the liabilities of the institutions in trouble. Suppose the Bankers' Association adopted Mr. McLeod's suggestion, and under authority from Parliament instituted an audit of the head offices, would not the change place the strong banks under a much more pressing obligation to take care of the deposits of every bank that failed? Very likely it would amount, in fact, though not in law, to a guaranty of deposits, and we do not think the kind of examination suggested by Mr. McLeod would give the good banks adequate protection against that heavy moral responsibility.

Before a conservative Canadian banker would consent to make himself liable, in the smallest degree, for the deposits of his competitors, he would insist upon a larger measure of control and supervision over his competitors' business than those competitors would be willing to allow.

An audit of the head office once a year by accountants not qualified to pass on the character of the loans and discounts would be of very doubtful value.

We are strongly of the opinion, already expressed, that the question of outside inspection is a matter for the shareholders and directors rather than for Parliament.