

CANADIAN BANKS ATTACKED.

An intelligent, independent criticism of the banking system of Canada by some qualified observer, free from such influences as engender prejudice or partiality, would be a welcome contribution to Canadian literature. It would be marvellous were the banking system of this country the one and only perfect thing in the world. What its defects are is a legitimate and useful subject for investigation and exposure. If these defects are remediable it is advisable to have them thoroughly laid bare, so that "a multitude of counsellors" may show their proverbial "wisdom" by suggesting remedies.

There are, however, defects in all systems of finance, defects beyond man's power to wholly remove, as they represent and arise out of certain constant elements of weakness in human nature, human society and all forms of human effort. To point out these perpetual factors is an easy task, but one in which "the game is not worth the candle." Dwelling on human frailty is one display of its foolish aspect.

The Canadian banking system has been recently assailed by a critic who has made the wonderful discovery that the banks of Canada are not perfect, as they are deficient in the attribute of omnipotence. It is a truism that one function of a bank is to sustain, as far as prudent and possible, the credit of its customers. The bank critic has laid to their charge the responsibility of all the insolvencies and mortgage failures in the last 15 years. This is a terrible indictment indeed! It could only be paralleled by charging the water works of Canada with responsibility for the greater scarcity of water since they were established. Upon what ground is this indictment based and by what evidence is it supported?

First, it is averred that, as all the promissory notes discounted by banks are payable in gold and the entire stock of gold in their hands is only a small percentage of the total of such discounts, the deficiency of gold has led to wholesale insolvencies. The connection thus stated to exist between a bank's discounts and its stock of gold is as purely imaginary as any in the realm of superstition, it is as logical as "Alice in Wonderland." The notes or bills discounted by banks are not paid by them, as their critic supposes, they are paid by the makers or acceptors, and for their payment gold is not required. Hundreds of millions in value of discounted notes or bills are paid by book entries, that is by being charged to accounts, and the credit balances thus drawn upon have been built up, not by gold, but mainly, by credit instruments, such as cheques, drafts, bills of lading, bank notes, Dominion notes and transfers of the proceeds of discounted paper of various kinds. The bank critic supposes that when

merchants discount paper they carry off the proceeds in canvass bags full of gold, and, if the bank cannot find gold for all the paper to be discounted, then the merchants become insolvent! That is comic opera finance; it has no similitude to anything in real life, it is the fanciful theory of one who draws on his imagination as other men do on their experience, observation and study.

In the last 15 years, during the period in which the critic charges the banks with having caused insolvencies by their holding so little gold, the banks in Canada raised their discounts from \$138,546,438 to \$302,160,867, an increase of \$168,614,430. In the same period they increased their stock of gold from \$6,294,255 to \$12,919,711, an increase of \$6,625,456. In this term of 15 years they enlarged their capital from \$60,967,011 to \$68,474,523, an increase of \$7,507,512. Is it then rational to accuse the banks of restricting their accommodation in the past 15 years, when, on an additional capital of \$7,507,52 and an additional stock of gold of \$6,625,456, they increased their discount accommodation to the extent of \$163,614,430? That is, in April, 1902, the banks which are charged with restricting their loans, had \$163,614,430 more current loans and discounts than in April, 1888. Whence came the funds for this very large increase? The source of them is shown by two items, the circulation of the banks in the period during which this increase of discounts took place, 1888-1902 was enlarged by \$19,949,011 and the deposits were augmented to extent of \$229,449,854. It is only needful to look at these figures to see that the capacity of the banks to grant accommodation has no relation to their stocks of gold. Indeed, if the banks had done what their critic considers to have been their duty, they would have turned their deposit funds into gold, then that gold would have been locked up in their safes, then, when loans and discounts were applied for, the bankers would have replied, "Sorry, but we have no funds to give out, our resources are all locked up in gold."

The critic we are dealing with declares that "the bank currency in 1900 was less reliable than in 1876." This is an absurd but a mischievous statement, but it is surpassed by another which says: "the boasted soundness of the Canadian banker's banking system is really a bold banker's bluff," a third calls the bank circulation system "a flim-flam game," and in another passage, our bankers are compared to "pirates." Another wild statement in the attack on our banks is, that their funds in New York are in no sense reserves or available for sudden emergencies, or to any extent required for their legitimate business, and that banks holding money