healthier and sounder; and increases the promise of a successful and prosperous industrial year.

Call loans in Canada are the same as heretofore —5 to 5½ p.c. Though our stock markets have resisted the influence of the Wall Street declines, there have been plenty of evidences in Canada of liquidation of speculative holdings. The mining stocks in particular appear to have been lately subjected to a steady dribble of liquidation sales.

EXTERNAL BANK INSPECTION.

In our last article on this subject, in replying to Mr. H. C. McLeod's communication we took the ground that the bank failures in Canada since Confederation, on which Mr. McLeod so largely bases his argument for external supervision, represent with a few exceptions the passing of a type of bank not suited to Canadian conditions. In his article, which appears elsewhere in to-day's CHRONICLE, he disputes that contention; and refers to the record of the Bank of New Brunswick in order to prove that isolated local banks may live and flourish in the Dominion. We concur heartily in the praise bestowed upon the Bank of New Brunswick. It has, indeed, a proud record. We hold, however, that it is the one shining exception to our statement.

Taking the small banks, including those only having one office, Mr. McLeod says that in some cases they have gone down because of the high premiums paid for their good-will and assets, and that others have disappeared in circumstances of dishonour. And, in another place, he says incompetence and dishonesty with secretive management, have been the causes productive of failures of banks, large and small, in about the same percentages.

Our contention is that in Canada one of the main underlying causes of the passing of these localized banks has been the pressure of competition from large, strong branch banks. Against these small local banks in the town or district where they are established, appear the branches of two or more strong institutions. They strike at once for the cream of the local business. If there are any large and prosperous industrial concerns located there, the large banks are reasonably certain to get them because they can give more generous lines of credit and at lower rates of interest. Next, the best risks among the smaller local borrowers are subjected to the same seductive lure of low rates, as well as the lure of dealing with a large institution. What then is the local bank to do? It usually turns out that the local bank is obliged to take risky business in order to get the interest rates necessary to make decent profits. In other words it is driven into bad banking by the pressure of a too strong competition. There may be exceptions to this, but it is what has happened in many cases; and the incompetence and dishonesty that are later in evidence spring from the difficult circumstances in which these bankers are placed. In the United States the spectacle of strong branch banks competing with little local concerns is not seen. If branch banks were to be introduced there and the little localized concerns had to stand the competition, they would, most surely, go down in scores in spite of any external supervision that could be devised. So in Canada's case the smaller concerns have been gradually passing away—some sell out to large banks, some fail, and often enough there are disgraceful circumstances brought to light. Bank failures are usually accompanied by disagreeable developments in every country. External audit does not make them clean and honourable.

When we take account of these circumstances —that the banking business in Canada has been passing from the hands of mixed banks, large and small, into those of large institutions with widely extended branch systems—we do not consider that our recent record is anything to be ashamed of. In fact, we think there is much in it on which Canadians might justly pride themselves. In the last ten years depositors in the representative Canadian banks (by representative we mean branch banks of moderate and large size) have not lost a dollar nor have they suffered any lock-up of their funds.

We think that the case of the Law Guarantee and Trust Society has its lesson for us in this present controversy, despite the explanation made by Mr. McLeod. In that case the clearly defined duties of the auditors consisted of merely verifying the figures of the balance sheet. They could not have valued the assets even if they had tried. And if a scheme of audit such as that suggested were in force in Canada, it is very doubtful if the auditors would be able to do much more than certify that the cash was there and that the stocks and bonds claimed to be there were thumbed over and found to be intact. We take distinct issue with Mr. McLeod in the matter of his statement that "examiners or auditors accustomed to bank work can very readily estimate the quality of any particular account on a bank's books." We venture to say that our large banks have in their books, at the branches, and at the principal offices, numbers of accounts which chartered accountants or auditors could not value. There are large discount accounts which general managers and boards are not able to value satisfactorily, notwithstanding that they have been studying them closely perhaps for years.

One may imagine what would be always happening if Mr. McLeod's scheme went into effect. The auditor might say to the officials of a bank "this account is not safe." The general manager and directors would say, "We consider it good." To make the auditing of practical use the auditors would have to value every account comprised in the liability lists of all the branches, and this they are not competent to do. The bulk of each bank's assets consist of its current loans and discounts. Whether it is solvent or insolvent depends upon whether its liability accounts are good or bad. We can imagine an auditor examining the assets of one bank and finding them in A1 condition so far as he knows about bank assets. He then goes to another and finds the assets of a poorer quality, but not bad enough to warrant the insistence upon a change in the valuations. Finally he gets into a bank where he sees clearly that the assets are over-valued, but he does not know how much. He does not know whether he is justified in closing the bank or not.