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The Guarantee of Bank Deposits.

It was to have been expected that the question of the guarantee of the banks' deposits would emerge into prominence at the present revision of the Bank Act. The disgraceful circumstances of the Farmers' Bank failure and the losses by depositors in that institution played some part in several of the Ontario ridings in the election of September, 1911, and if only for the purpose of keeping themselves right with their constituents, it was necessary that some members of Parliament should talk upon this question. Their enthusiasm for an unsound and undesirable proposal seems to have infected others, and the recent second reading debate produced quite a crop of speeches in which the proposal was put forward. While Mr. While then refused to have anything to do with the idea, it is probable that it will be again brought forward before the Banking and Commerce Committee.

The arguments which are adduced in favor of the guarantee of bank deposits are specious enough. It is said that the business of the banks is mainly carried on with a thousand millions of "the people's money" which is an euphonious and appealing manner of reference to the banks' deposits. That being the case, it is argued that the banks should deposit with the Government an amount of say 5 per cent. or $50,000,000 as a guarantee fund to protect the depositors of any failed bank. The Government would pay the banks interest on this amount at say 3½ per cent. so that no hardship would be incurred by the banks—merely on 5 per cent. of their deposits they would not obtain the usual rates of interest procurable on commercial loans. As the note holders are guaranteed by the circulation fund, why should not the depositors, whose funds are of much greater importance, enjoy a similar privilege?

This is, in brief, the case of those who favor the guarantee of the banks' deposits. In some cases a fund of only 2 or 3 per cent. and its application to the banks' notice deposits only are advocated, but the principles involved remain the same.

It is somewhat remarkable that those who have been advocating action on these lines have also not been slow to complain that the banks are not keeping pace with the borrowing requirements of the country. Do they suppose that the lessening of the banks' available funds by some fifty million dollars will enable them the better to meet the admittedly pressing requirements of the commercial community? It is obvious that the banks' funds now available for discount would be reduced by the amount which would have to be paid into this fund, and there is no reason to suppose, as was actually suggested by one speaker, that this effect would be neutralised by the public's increased deposits, owing to their greater confidence in the banks. Neither is it desirable that this large amount of funds should be at the disposal of the Government. Apart altogether from the soundness of a policy which would exact from the banks, what would be in effect, another forced loan, it is not to be desired in the present stage of Canadian development that the Dominion Government should do its financing at home. It is essential that it should borrow abroad, in order that the accumulation of funds at home may be left wholly available for that part of the country's commerce which must be financed at home, and that fresh supplies of capital may continue to come to us freely. There has been much evidence in support of this contention in recent months. The large municipalities, who, like the Dominion and provincial governments, should always borrow abroad, have materially intensified the pressure for funds by their recent heavy borrowings at home, pending a more favorable outlook in the London market. Moreover, it must be remembered that this guarantee fund would not remain at 50 millions. Since 1901, the deposits of the banks have tripled, and, while we make no attempt to prophesy, it can be a matter of a comparatively few years, in the ordinary course of events, before the banks' deposits are double their present total. This would mean, according to the present proposal, a fund of 100 millions in the hands of the Government —in effect, a forced loan from the banks. The figures themselves are a condemnation of the proposal.

Another section of objections was referred to by Mr. White the other day, when he pointed out that "it is not good law to make all the banks responsible when they have no hand in the administration of each for the losses which might arise through maladministration." This ground of objection is indeed entirely incontrovertible. The proposal in this light is merely taxation without representation over again. There are other fundamental grounds of objection. It is entirely unfair to single out the banks for this treatment if the loan and trust companies also taking deposits are not to be dealt with in a similar way. And if these companies are dealt with, why not go on to give Government protection of the same kind to the man who invests his savings as well as to him who deposits them? Are those who advocate this guaranteeing of bank deposits prepared to follow the logical course of subsequent action into a far-reaching system of Government paternalism?