

# CANADIAN AND U.S. BANK SYSTEMS COMPARED

Elasticity of Note Circulation Helps the Dominion in Times of Panics or Crises—Ex-President Taft Said the Republic's Banking System Lacks That Quality.

## THE UNITED STATES SYSTEM

The keynote of the United States system—if it can be called a system—is individuality or personality. In other matters than banking the people are much opposed to centralization. The States are jealous of the federal authority. The State Governments as well as the Federal Government have power to create banks; and both create them, by hundreds, every year. There are at present over 18,000 banking institutions in the States—some six thousand odd under Federal control, the rest under State control. As a rule the business of a United States bank—either National or State—is confined within a single office. Branch banks are not in favor. The bankers do not want them, because many thousands of bank presidents and directors would have to give place to the branch manager; and the business men and people do not know what an enormous amount the little local banks cost them.

The United States banks are of two kinds—commercial and financial. The big financial banks in the centres employ their resources pretty largely in financial loans and investments. Even the commercial banks do not devote their funds to financing of mercantile borrowers to the same extent as do the banks in the United Kingdom and Canada. Taking all the National banks, their commercial paper amounts to less than one-third their total assets. The Canadian proportion is nearly double that.

Owing to the banking methods prevailing in the States considerably more capital is required to carry on manufacturing or wholesale business than is required in Canada. It can be proved that, in this respect the operations of the small local banks have tended to favor monopolies.

In regard to legislation there is all the time more or less tinkering and interfering by Congress and the State legislatures. Sometimes the measures are really designed for political purposes rather than to strengthen or improve the banking edifice.

The banks are subject to examination by Government officers. The National Banks are required to report condition five times a year. The summaries are published.

The United States banks have no branches abroad. A large part of the foreign exchange business of their own country is transacted by foreign institutions. The Canadian bank agencies in New York City have a good share of this business.

By way of comment on the two systems it might be said that the recent panic in the United States tested them pretty thoroughly. Though it had its centre in New York City and spread from thence to the various States it nevertheless put a very severe strain upon the banks in both the United Kingdom and in Canada. The former country had to supply the greater part of the \$100,000,000 gold shipped to New York, and Canada was affected because the Canadian bank reserves were largely employed in New York City, and because of the close trade and financial connections of the two countries. It was quite clear to outside observers that in the utter lack of cohesion or co-operation of banking offices in the States was one of the principal factors in aggravating the crisis. But panics only come once in ten or fifteen years. It is a matter of much consequence how the banking system of any given country bears itself in the intervening periods. The Canadian system has grown with the Dominion, and has moulded itself in a ductile manner according to the peculiar Canadian requirements. But our neighbors across the Southern boundary are not satisfied with the working of their system. They are not settled in their minds just how they will amend it. There are many particulars in which it is short of what it should be. The disposition evidently is to amend some of the defects and not to undertake revolutionary alterations.

## THE CANADIAN SYSTEM

Canada has a system in which the banking business while highly centralized yet promises to perpetuate competition. The important banks have their branches spread over an immense extent of territory. The probability is that in number of branches they will eventually be much larger than at present. There are no privileged banks. All are on the same footing. Every one of the Canadian institutions is a commercial bank—that is to say, it devotes its energies and resources to the cultivation of commercial accounts.

One of the strongest points of the Canadian system is the high degree of organization found among the banking interests. In no country in the world are the banking interests united so closely or so harmoniously as the Canadian interests are. The Canadian Bankers' Association represents the whole of Canadian banking. Partly owing to this the relations of the banks with the Dominion Parliament—which is the only legislative body in Canada having control over banking—have been happy and beneficial for the banks and the country. The law-makers have had the good sense to recognize that bank borrowers are the principal gainers from a policy that leaves the banks free from irksome restrictions. The Canadian banks have privileges of note issue beyond those enjoyed by banks in other countries. The effect has been to enlarge their ability to assist the country's trade and industry. And arrangements are in force that make the notes absolutely safe and sound. Each institution has to place its condition in a uniform statement before the public once a month. So the banking position is clearly portrayed. Their business is not confined to Canada. There are over fifty branches abroad—in the States, Newfoundland, the West Indies, Mexico, London.

These outside agencies are a valuable advertisement for the Dominion and assist materially in developing Canadian trade with foreign countries, besides contributing to increase the profits enjoyed by the thousands of bank stock-holders at home.

Another strong feature of the system is found in the manner in which the banks adapt themselves to the conditions and circumstances of the country's trade. Banks are supposed to do this everywhere, but there are few countries in which they do it so well as in the Dominion. Practically every citizen who has banking business to do has the necessary facilities placed reasonably within his reach.

Ex-President Taft thought that the most crying need of the United States is a proper banking and currency system. He admits that the existing one is inadequate, and says any one who has studied the question admits it. His message to Congress last month in view of the somewhat similar conditions existing in the United States and Canada and the different banking systems in operation in the two countries, is usually interesting. He stated that it was the business of the National Government to provide a medium, automatically contracting and expanding in volume, to meet the needs of trade. The present system lacks the indispensable quality of elasticity.

"The only part of our monetary medium," he continued, "that has elasticity is the bank-note currency. The peculiar provisions of the law requiring National banks to maintain reserves to meet the call of the depositors operate to increase the money stringency when it arises rather than to expand the supply of currency and relieve it. It operates upon each bank and furnishes a motive for the withdrawal of currency from the channels of trade by each bank to save itself, and offers no inducement whatever for the use of the reserve to expand the supply of currency to meet the exceptional demand."