

bank currency and the readiness with which the banking requirements of new districts are met by branch extension being its strongest features. However, it is not without defects, some of them of vital importance. Of these the most prominent is the lack of external inspection, which experience in the western hemisphere has demonstrated to be essential. The public have been reminded of this necessity by the recent failure of the Ontario Bank and the leading papers of the country are almost a unit in demanding reform in this particular. The reasonableness of this demand is made clear by a review of Canadian banking history since 1880 and before, and is confirmed by the experiences of our near neighbours prior to the civil war. In 1880 there were in existence in Canada forty-one banks; since then seven have been incorporated and have commenced business, making a total of forty-eight banks. Of this total, twelve have failed and some others have saved themselves by amalgamation. The failures are, therefore, twenty-five per cent within a period of twenty-six years, the last ten of which were years of unexampled prosperity, with steadily rising deposits, conditions under which even insolvent banks seldom close their doors. Most, if not all, of the above-mentioned failures were fraudulent, and it is now plainly evident that a few hours' examination by a skilled banker would have disclosed an insolvent condition in any one of the banks, years before it collapsed. In each of the two most recent disasters a correct diagnosis could have been made ten or more years ago. Some urge that the government should call for special returns, but what value should attach to special returns from the Bank of Yarmouth? from the Ontario Bank, or from any of the other wrecks gone before? They would simply have enlarged the piles of incorrect and deceptive bank returns in the Finance Department.

There is the language of a banker, the general manager of a very strong banking institution, and he refers to these returns as 'piles of incorrect and deceptive banking returns.' Then he goes on to say:

What is written by one having unusual facilities for observation is eminently true: 'it' is extremely rare to find a bank has failed without some of the officers committing fraudulent or illegal acts to hide it.' There is at least sufficient truth in the above to dispose of the suggestion of special returns and to dispel faith in the returns of badly managed banks.

Some Canadian bankers, including one writer, whose words are entitled to great weight, contend that government inspection has failed in the United States. Under the National Bank Act of that country there has been a somewhat imperfect system of bank examination and a more imperfect system by some of the state bank departments. I say imperfect, for under the national system there were employed last year 78 examiners, whose duties required the making of no less than 11,516 inspections each year. For the forty-three years during which the National Bank Act has been in operation there have been established 7,966 banks. Of these 460 have failed, the failures being equal to $5\frac{1}{2}$ per cent of the whole number for the period.

Mr. PRINGLE.

As for the banks other than national, with a more imperfect system of inspection, or no system at all, the failures reached $17\frac{1}{2}$ per cent. The comparison of the percentages appears as follows:

Failed in 43 years—

National banks, $5\frac{1}{2}$ per cent.

Other United States banks, $17\frac{1}{2}$ per cent.

Failed in 26 years—

Canadian banks, 25 per cent.

National banks, 5 per cent.

External inspection must not be regarded as an unfailing cure; it has its limitations, and the best that can be said of it is that it is a preventative that, if properly applied, will make bank failures almost unknown. An inspector cannot discover an embezzlement until after the act is committed; neither can he avoid a ruinously bad debt made before his visit, but the progress toward failure is generally slow and in the majority of cases a prudent inspector would, by his advice and authority, save the situation and direct the management into safe channels.

The subject of the establishment of an effective bureau of inspection is one of the utmost importance, for unless it is founded on conservative lines, in which the interests of all sound institutions are carefully conserved, much more harm than benefit would ensue. Bank shareholders are the parties with the major interest at stake, and for the present the subject would be better left to them and to their representatives, in the hope that a satisfactory solution of the problem may be reached.

H. C. McLEOD.

Toronto, November 21.

That is a letter from one who is an authority on banking, and he advocates in the very strongest terms some action on the part of the Department of Finance in the direction of government inspection. My own suggestion in regard to that is that there should be an absolutely non-partisan board of commissioners, with full power to inspect the head offices of our banks. If we had had that non-partisan board of commissioners, with power to inspect, we should not have had the bank failures that we have had within the past few years. This question of bank inspection has been a live question in many countries. Some system of bank inspection has been adopted in nearly every country under the sun. I have been much interested in reading the banking laws of China, Japan, Mexico and other countries. I find that in every one of these countries they have a system of inspection, probably a stronger system than that of Great Britain and Australia. As to our Canadian banks, I believe that, of the thirty-four banks doing business to-day, they are in fairly good condition, and, with conservative management, they must of necessity make money. If we had had a bank inspection system, do you suppose we should have had the failure of the Banque Ville Marie? I made the statement the other day that this bank had exceeded its circulation to the extent of \$300,000. I find that I was wrong, and that that bank had exceeded its legal