

The Banks and the Borrowers

How the Canadian Banking System Acts as a Distributor of Funds—Relations With New York—The Attitude of the Farmer—Present Day Difficulties

IN a recent number of the "Home Bank Monthly" the criticisms of banks by borrowers is discussed by a writer who signs himself "Democritus."

"There may be broadly definable points of constitutional difference between the banking system of the United States as compared with that of Canada," he says, "but in these 'after the great war' times and circumstances they hold one common resemblance in that each is the subject of vigorous criticisms directed from the same source. It seems that bankers everywhere are not coming to the assistance of the worthy borrower with a sufficient degree of abandon. There is too much business formality, and not enough human consideration for the particular claim of the respectful and worthy suitor for a needful loan.

"An American writer of characteristic form complains that the banks in his country make it a practice to refuse a loan to the stranger within their gates, or the applicant whose account is with another bank.* This is bad enough. It discriminates against the newly-arrived settler and the 'regular fellow' whose bank has found it necessary to shut down on accommodations all along the line; but at the worst this stiffness on the part of a manager would only find an occasional opportunity for exercise, so that his refusal to extend credit under these particular circumstances would not affect general financial conditions in his locality.

"A typical contribution on the same theme from a Canadian source makes a more sweeping and serious complaint. This writer alleges that it is the established practice of the western branches of our banks to deliberately ignore the legitimate requests of the farmers for loans, because those who are at the head of banking in Canada 'wouldn't know grain growing if they saw it, and would find it difficult to differentiate between a steer and a milk cow.'†

"This humorous sally at the expense of the dignified body incorporate of eastern bankers has no doubt been enjoyed by many readers, but it is scarcely the process of deduction, or form of logic, that will invite attention to a subject deserving of earnest consideration. It is a statement that can only be replied to in kind, and we shall therefore declare, with equal authority and emphasis, that an elemental knowledge of farming is possessed by all thorough-going Canadians of every walk in life, and that the alleged Canadian who could grow up to mature years, knowing so little of this subject that he could not distinguish sorts and kinds

*This reference is evidently to an article in "System" for February, 1919, under the caption: "You Have No Account With Us." This critic of American Banking methods declares:—

"The logic of refusing credit to a firm or an individual because he or it has had no account at the bank is a general practice among many banks. It seems to me about as sound a business policy as it would be for any mercantile store to refuse to sell goods to a customer simply because he has never traded there before.

"Many bankers seem to assume that they are doing the borrower a favor in lending money, even on the best security. This may, of course, be true; but, at the same time, the borrower is really providing the banker with a means of livelihood."

†This and similar quotations through this contribution are verbatim extracts from an article appearing in Saskatchewan newspapers. That criticisms of Canadian banking methods are just now more than ordinarily rife is indicated by the tone of an article in the "Financial Post": "Why the Unpopularity of the Banks?" this writer asks; and after reviewing the sources from which unpopularity is likely to arise, through the refusal of loans to unreliable borrowers, he concludes:—

"But there is still the fact to be faced that the banks are not popular—even if not exactly unpopular—with a lot of small depositors and others who seldom desire loans, but who on the other hand usually get far more service than their accounts warrant. Is this merely the result of newspaper education? Is it another form of the resentment of Mr. Average Citizen towards the police uniform which represents protection of his life and property? Is it anything that branch managers or head office officials can cope with; or something which must be put up with, like the 'flu' and the cost of living?

"Managers who will contribute experiences and opinions will aid in carrying on what I believe will prove a helpful discussion."

The statement that small depositors, as well as borrowers, have a grievance against the banks discovers a new symptom in the prevalent form of complaint. The public generally must be aware that the banks have been operating under the handicap of short-handed and inexperienced staffs since the first contingents of Canadian Troops were enlisted for active service.

in grains and livestock, must have been brought up in a boat and raised on a diet of cocoanut milk and fish.

"We are all farmers or near farmers in Canada—bankers included. We all know something about farming because we all live off a farm if we do not live on a farm.

"With the next paragraph in the article referred to we find ourselves getting into matters touching on our national history. 'At its inception the Bank Act was designed to deal with eastern commercial and industrial conditions,' we are informed. 'The West was not taken into consideration at all, simply because at that time there was no West. . . . ‡

The Bank Act of 1871

"It may pass as a metaphor, but it is not literally correct to say there was no West in 1871, the year the first general Bank Act was passed by the Federal government, after having been under consideration from the first session of parliament in 1867. Manitoba was admitted to Confederation, July 15th, 1870, with the privilege of sharing an active part in the framing of measures for the general good of the country, and the more particular mission of seeing to it that the west got a square deal in every department of legislation. But of there were omissions in the original Act of 1871, these could not possibly exist down to the present day, because the Canada Bank Act is not an adamant code dedicated to the perpetuation of a class privilege; it is a plastic measure, subject to constant amendment, and it must, as a matter of legislative routine,§ be brought up for general overhauling and revision every ten years. There have been general revisions of the Canada Bank Act in 1880, 1890, 1900, 1910, and another revision will be promulgated next year. "Most of us think the ten-year term all too short," an eminent Canadian banker, who will be quoted at greater length further on, has declared: 'Whatever may be said for or against these decennial battles, the product of the discussion is a Banking Act improved in many respects by the exchange of opinion between the bankers and the public. Our banking system having been subjected to unsparing analysis by an unusually enlightened people, perhaps too democratic in tendency and too jealous of every privilege granted, but anxious to build rather than destroy—is brought at each period of renewal to a higher degree of perfection.' ¶

‡The Bank Act of 1871 was not the inception but the revision and consolidation of legislation on banking in Canada. By section 91, subsection 15 of the British North America Act, the right was assigned exclusively to the Dominion Parliament to legislate respecting "Banking, Incorporation of Banks and the Issue of Paper Money." Prior to Confederation the banks in the old Province of Canada operated under regulations of the Consolidated Statutes of Canada and the individual privileges of their charters. There was no banking act in the old Provinces of Nova Scotia and New Brunswick, special provisions being embodied in the respective bank charters. When British Columbia came into the Dominion in 1871 the established bank of that Province was operating under an Imperial charter, the head office of the organization being in London, England.

§Under the Statutes of the old Province of Canada (Ontario and Quebec, prior to Confederation) bank charters were usually granted for a term of ten years. In Nova Scotia the charters ran, as a rule, for fifteen years, and from twenty to twenty-six years in New Brunswick. In Prince Edward, the charters were for longer duration.

¶The democratic tendency of representative Canadian legislators, and the jealousy with which they early regarded any infringement upon their privileges to control their own banking system, is convincingly asserted in an address to the advisors of Her late Majesty, Queen Victoria, upon the granting of Imperial Charters to banks in Canada. The following memorial was addressed to the Throne by the Committee on Currency and Banking, August 27th, 1841:—

"It becomes our solemn and bounden duty," the petition sets forth, "in behalf of the people of Canada, whose representatives we are, to protest against such an interference with their constitutional rights. We beg leave most humbly to represent to your Majesty that the statutes of the Imperial Parliament, by virtue of which we are now assembled, was intended to confer upon the people of Canada the power of managing their own local affairs; and we had ventured to hope from the tenor of recent dispatches from your Majesty's Secretary of State for the Colonies to your Majesty's representatives in this Province, that non-interference in those affairs would be the principle on which your Majesty's Council would thenceforth be governed in reference to the affairs of the Colony." (See "Journal of Legislature of Canada," 1841, p. 436, as recorded in Kingsford, vol. 9, p. 83).