THE CANADIAN BANK ACT.
(4th Article.)

Another point in which it has been sought by some to induce Canada to follow in the footsteps of the United States is in the matter of Government inspection of banks. It is probable enough that this subject will be brought up at Ottawa again sooner or later as there are always a certain number in favour of it. It is highly desirable, therefore, that the fallacy of bank inspection by Government be pointed out. Even in the United States where the system of branch banks does not exist, inspection has not been a success. It has not prevented insolvency of banks following on a bad state of their discounts. However, it would not be an act of wisdom to place in the hands of an inspector, of one man, the right to value a bank's assets which have already been valued by the board of direction. But this is a minor point compared with the difficulty which the Government would have in endeavoring to get to the bottom of the affairs of a bank with many branches. A recent defalcation in one of the Canadian banks is an example of what tricks might and could be played. The clerk was considerably behind at his branch, and was transferred to another branch, the bank not being aware of the defalcation at the time. He managed by methods which need not be described, to transfer his shortage from the branch he was leaving to the branch he was being sent. The branch to which he had been assigned had just been inspected, and was not visited for some time, while at the former bank his accounts were correct. The public will understand, with this hint, how little use there would be in Government inspection. A bank by manipulations between its branches could conceal its true position without difficulty, and only a general pouncing upon every branch on the one day by an army of inspectors could detect its tricks.

It will be said, of course, again the responsibility which the Government would morally assume regarding the solvency of every bank, would be embarrassing in the event of a bank failure, and out of all proportion to the security afforded against solvency. Further, it has been found by long experience that a bank's business relations with its customers' needs be as sacred as the relations of a physician or a priest. There are many occasions when a breath of publicity would work incalculable harm to quite legitimate ventures, and a pessimistic or ignorant inspector might easily bring out the very troubles his office would be designed to avert. Nor has it always been found that political considerations failed to outweigh a just and proper estimate of a bank's position.

Taking into consideration the difficulties which Government inspection of banks would have to overcome, and the evils that might follow, it seems to us that the adoption of official inspection would not be wise. So far as the Government is concerned, it is called upon chiefly, if not altogether to protect those who are innocent of any special intention of doing business with a certain bank, that is the noteholders. Depositors and others cannot expect Government to preserve them from the effects of a misplaced confidence. Statements are called for from banks, they are duly made public, and if wilfully false the law provides for punishment of the offenders, and makes them personally liable for the losses they may have imposed upon their customers. Further than that it would not be wise, and certainly is not necessary that the Government should go.

At any rate time and again, the proposal to appoint Government inspectors for banks has been brought before Parliament and defeated. If the spirit of the Canadian banking system is to be followed, any such proposal again would share the same fate. But with this we shall deal more fully in our article upon desirable amendments to the new Act.

Among other proposals to amend the Bank Act has been one to do away with the double liability clause. The arguments in favour of doing away with double liability are based upon the fact the fact that it does not reach all shareholders equally. It is difficult of application, for example, to foreign shareholders, and it cannot reach those who have embarked their entire fortune in the bank. To be logical, this clause should carry with it a provision that every bank shareholder should be able to show at least an equal amount of assets outside of his bank stock. Again it is difficult, in view of the prolonged period which the liquidation of a bank requires to prevent shareholders from disposing of their property in one way or another, and in fact, the double liability attached to a defunct bank has never realized anything like its face value. In view of the many safeguards now surrounding the note circulation, it is an open question whether it would not be advantageous to do away with the double liability altogether, as the benefit to be derived therefrom does not at all equal the restrictions which it places upon investments in bank stock, or the hardship in which it involves innocent stockholders, who, while nominally partners in the bank, are in effect not much better than creditors.

Another proposal made many years ago is still of some interest. It was that the branches which a bank might establish, should be restricted in proportion to the capital. The proposal of the time was that no bank should be permitted more than one branch for every $250,000 of capital. This is much too conservative, any rule of this kind would do much to restrict that over-competition in small places of which the complaint is occasionally made at the present time, on the other hand such a rule would trend to restrict banking facilities to the public.

It is to be understood that we are not in this article recommending the proposals touched upon, but merely indicating their nature, and whether they would be harmful or not.