

THE CANADIAN BANK ACT.

Second Article (Continued.)

Some Unaccepted Proposals.

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 more than probable that this subject will be brought up this session, as several members of parliament are known to favor 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 detected insolvency in time, nor has it prevented failures. Nine times out of ten the insolvency of a bank follows upon a bad state of its discounts, and 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 to. The branch to which he had been assigned had just been inspected, and was not visited for some time, while at the former branch 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.

Banks with few branches and comparatively small business might bear inspection by the government or by officers duly appointed by their confreres. It might not be out of the way to permit the inspection, for example, of all banks whose subscribed and paid-up capital is less than the Act demands of new banks, although when one calls to mind the names of some of these institutions, which are in a most flourishing and sound condition, one feels that to make such a distinction between them and their larger confreres might be too invidious.

It will be said, of course, that the failure of several banks in Canada in recent years revealed a condition of affairs that an inspector could not but have seen had he had access to the books. There is no doubt that the Government would have some justification in going a step farther than it now does to secure honest statements. It may call for details when it will, but may not verify these for itself. It might assume the right to do so, but, on the other hand, the responsi-

bility which it would morally assume as to the solvency of every bank under such circumstances, would be embarrassing in the event of a bank failure, and out of all proportion to the security afforded against insolvency. 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 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 about the very troubles his office would be designed to avert. Nor has it always been found that political considerations failed to out-weigh 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 government is concerned, it is called upon chiefly if not altogether to protect only those who are innocent of any special intention of doing business with a certain bank, that is the note holders. 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 the 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 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 our banking system is to be followed, any such proposal this year will share the same fate.

At the last revision of the Bank Act, in 1890, it was proposed in the original draft that the banks should be required to maintain a certain proportionate reserve of cash. This was again following the United States system. The bankers pointed out with good effect that a reserve of cash which could not be drawn upon would weaken and not strengthen them. It was just so much money withdrawn from commerce, and not even placed at the service of the bank. It was also pointed out, subsequently, in newspaper discussions, that the banks, as a rule, held large reserves not, indeed, in cash, but in readily convertible items, often abroad, where local conditions did not operate, and that such reserves, paying for themselves, were nevertheless quite equivalent to any similar amount of cash kept idle in the vaults. The argument was so sound that the Minister of Finance withdrew the objectionable clause. Yet he was not altogether in error, indeed may have been inspired, for there have been times when, for want of some restraint upon the exhaustion of their immediate resources, some of the banks have seriously disturbed the local markets in a desire to realize at a time when such a disturbance