

States. The United States is destined to be a great imperial country, with enormous foreign investments, yet it has no foreign banking system.

STEADY REDEMPTION ESSENTIAL.

In studying means of reform, said Sir Edmund, it is impossible to transplant a foreign system just as it stands to the United States. There must be an adaptation. If there were 15 or more districts in the United States with a banking corporation in each authorized to do what clearing houses heretofore have done in times of pressure it would be a desirable start. Further, the larger banks in reserve cities should be allowed to issue notes securing on their general assets. These would be perfectly safe. Such notes, however, should be subject to steady redemption. Canadian notes are good because of the requirement of daily redemption. Every bank issuing asset-secured notes should be required to redeem daily through the district association or banking corporation formed in each of the proposed districts.

Sir Edmund said the basis of reform should emphatically be the maintenance and perfecting of the national system. But alongside the national system there should be started a new scheme of banking. This should include several banks perhaps vested with note issue powers, authorized to establish branches where needed within reasonable limits and empowered to deal with individuals as well as other banks.

THE MANAGEMENT OF CREDITS.

Turning then to the management of credits, the witness said that in Canada a concern was expected to do all its business with a single bank. Some exceptions existed, but the rule was general. It should exist in the United States. In the United States the division of business among banks and the reliance on note brokers left big concerns without friends in times of trouble. Then they failed because they lacked support. When a concern owed 20 or 30 banks it was likely to be oppressed and harassed, at the very time when it needed to be let alone or aided. Canadian banks were widely owned and were semi-public institutions. Few or no dominant shareholders existed. Directors seldom asked to see balance sheets of customers who were in similar lines of business.

There was some danger from fraudulent balance sheets, but it was far less than under the American note broker system, where no one bank saw the whole sheet. There were, of course, many bank accounts in the United States that were based exactly on this Canadian method of management, but a vast volume were not in that state.

CLEARING SYSTEM WORKS SMOOTHLY.

Sir Edmund then took up the detailed discussion of note issue. The Canadian banks could issue notes equal to unimpaired capital. They cost for printing reserves about 1½ per cent. This left a handsome profit. Due to the note issue system there was a larger number of banking offices per 1,000 population than in the United States. One bank to every 3,100 people existed, against one to every 9,000 in the United States. There were clearing houses throughout the country, and the cheque system was well developed. Notes were cleared regularly and systematically through the clearing houses. The notes

went home for the same reasons that cheques were sent home.

The witness took strong ground against the guarantee of deposits now agitated in Canada, because of its effect in stimulating bad banking. He said no amount of governmental or mutual bank inspection would suffice to suppress bad banking due to this cause. Efforts of strong banks to prevent weak ones from granting bad credits would be misunderstood and charged to illegitimate rivalry. The ideal system was the branch bank system, with force or competition between branches and a contest for business which was based on the desire to make progress and develop the community. Nothing was more erroneous than the notion that the small independent bank helped the development of the small town more than branch banks could.

With reference to unity of banking policy Sir Edmund Walker said that once in ten years there was a revision of the Banking Act in Canada. The number of bankers in Canada was small and while there was nothing in the way of a "trust" there was substantial harmony of action. Competition took care of most elements in which the protection of the public was called for.

LOANS TO DIRECTORS AND THEIR FIRMS.

To the Editor of The Chronicle:

Sir—While the changes made by the Minister of Finance, in the form of the banks' monthly return to the Government, as described in your last issue, appear to be in the right direction, it must be considered, I think, a matter for regret that Mr. White has not required more information from the banks regarding the borrowing transactions of their directors. The present heading under which these transactions are shown in the monthly return is "aggregate amount of loans to directors and firms of which they are partners." This form may have been suitable for the conditions under which Canadian commerce and industry were conducted many years ago, but it is obviously inadequate for the circumstances of the present day, owing to the great growth of chartered and incorporated companies. Apparently what may happen under the present form is that a bank director holding also directorships in commercial and industrial companies may use his influence to obtain large loans from the bank for those companies, which the bank need never show in the return. I do not say that this does take place, but while there is secrecy in regard to this matter, there is always likely to be the temptation to use undue influence. For that reason it would have been wiser for Mr. White to have added a clause to the wording of the present heading so that it would read "aggregate amount of loans to directors and firms of which they are partners, and to chartered or incorporated companies of which they are directors." Perhaps it is not too late to make this change.

Yours truly,

A BANK CUSTOMER.

Montreal, 24th February, 1913.

Messrs. Farquhar Robertson and William McMaster have been elected directors of the Canada Cement Company.