

INTEREST ON DEPOSITS CONDEMNED.

Another attack has been made on the practice of paying "Interest on commercial deposits" by banks. This latest tirade emanated from Mr. Frederick D. Kilburn, superintendent of banks in New York State when addressing a convention of officials of the same class.

We fear the condemnation he expressed against banks paying interest on commercial deposits evidences imperfect familiarity with banking conditions. It goes without saying that bankers do not pay interest to any depositors as a voluntary gratuity. The question a banker has to solve is, how to obtain funds for conducting his business so as to return a profit on the capital engaged. It is obvious that if a banker has only the amount of his capital to utilize in loans and discounts he will have only a trifling margin of profit to pay the stockholders, unless his loans and discounts are made at far higher than ordinary rates, a practice which involves far higher than ordinary risks of loss.

To secure additional funds, he must pay at least their market price—or go without. One famous bank does not pay any interest on deposits, except by special agreement. There are also many banks in the old land whose current account credit balances bear no interest. This exemption is a matter of special arrangement in regulating charges on the transactions passed through the account, such as commissions charged at less than the ordinary rate if the account has a continuous credit balance above a certain amount. This, practically, is the same thing as an allowance of interest on the customer's deposit as represented by the amount at the credit of his current account. Whatever private arrangement may be made between a banker and his customer, this may be regarded as fundamental: the customer will not leave money in his banker's hands without receiving some return, nor will the banker pay anything for such money unless he can so use it as to make a profit.

The Bank Superintendent of New York State said:

Interest is a continuing and constant charge. It works day and night. It constantly adds to the obligations of a bank, and all banks which to any appreciable extent indulge in its payment must necessarily make corresponding gains and profits in order to meet this everlasting charge. This undermines conservatism. It leads officers and directors into investments which, were it not necessary to meet the interest charge, would not be made. In order to meet this charge, there is great anxiety to loan, and not only this, but to loan at the highest rates obtainable."

The above remarks express mere common-place self-evident truths, and some untruths. Of course,

a bank must make gains to cover its payments of interest, but, that this "undermines conservatism," is not true. What "undermines conservatism" is not the ordinary routine operations of a bank, the business of dealing in credit, but is the reckless spirit which first secures deposits and then lends them to unreliable borrowers. If a banker is led to make unsound investments in order "to meet the interest charge" on his deposits, he should go into some other business for he has mistaken his calling by operating as a banker.

Another passage reads as follows:

"A bank which does not pay interest upon deposits may loan money at a cheaper rate, the business of the bank will be more conservatively conducted, deposits will be safe, and business and borrowers will be benefited, and the bank in the long run will be ahead."

This may be amended to read, "A bank which does not pay interest upon deposits will not have any."

The distinction drawn between "commercial deposits" and other deposits is principally based on the difference between money payable on demand and money left for a fixed term and payable after notice. Money left at call is, of course, less valuable to a banker than money left for a specified period, for, against the former a certain proportion must be kept as a reserve of cash that earns nothing, whereas a larger proportion of the deposits left for a fixed period may be utilized for loans, that is they may be made to earn the interest paid on them and a profit as well.

The only danger peculiar to deposits on demand is the risk of their being called for when the cash reserve is inadequate. To avoid this contingency is a banker's duty, he is a very rash and inexperienced manager who runs any risk of being caught in such a dilemma. There is, however, a certain proportion of what the New York superintendent of banks calls "commercial deposits," which are reliable for use in loans. Experience teaches bankers what this proportion is and on that experience the practice of using demand deposits is based and by its wise observance is justified.

If deposits of a certain class earn no profit, why should they be received?

WINNIPEG INDUSTRIAL FAIR—The Winnipeg Industrial Fair of 1905 to be held July 20 to 28, will be an event illustrating the highest achievements in agriculture, horticulture, live stock, manufacturers, domestic arts, science, the appliances of trade and all that goes to make up a great country and represent the progress of the people. "The Commercial." To this we may add, it would be greatly to Winnipeg's advantage to be able to show the highest achievement in fire protection.