

A Criticism of the Canadian Banking System By JEAN EDOUARD SEARS

The only way to make an article really interesting is to state the truth without garnishment—which is very seldom done, for the opinion of the world is of so much importance that few of us can afford to publish our views in defiance of the prejudices which have become almost second nature. In our public schools, in our Boards of Trade, in our Legislative Chambers, Canadians have been led to understand that any criticism of the methods of banking in this country is unwarranted, and that there is no nation, be it ever so powerful, that can boast of a better monetary system than that of Canada. There are very few things in this world, however, that are altogether free from defects, and the method of carrying on banking in Canada is not one of them. Whether the disadvantages outweigh the advantages is a moot point.

As I stated in my last article, "The Powers and Business of Canadian Banks," banking in Canada is done upon the plan commonly called the branch bank system. This system, though it has many good points, is in some particulars one of the worst methods of banking extant. It was installed on the theory that having the ready money of the country in the hands of a few large banks with branches scattered over the Dominion, money could be rushed to any place where the deposits did not equal the demand for loans. But is this theory ever used in practice? Have they ever rushed money from Montreal or Toronto to Victoria, Vancouver, or any other Western community where it is badly needed? No! On the contrary, money is sent from the West to Toronto and Montreal, and most of that not loaned there is passed on to New York for speculative purposes. In fact, as it has many times been stated, the banks of Canada are not a reservoir from which streams of money are dispersed to all parts of the country for the use of the manufacturer, but are suction pipes draining the country of its money and making the few richer and richer.

The working of this system provides that all moneys deposited in a branch and not needed for the use of the till shall be shipped to the head office, and, as in the whole of Canada there are only twenty-nine different banking institutions with about two thousand three hundred and thirty branches, each one of which has to despatch the money not needed for immediate payments out of the till, to the head office, the method of banking constitutes a tremendous drain on the ready money of the outlying communities. The branch banks in British Columbia number one hundred and fifty one, none of them having their headquarters in the province, the Bank of Vancouver which recently commenced business, being the only true British Columbia institution.

This shipping of the ready money of the country to the several head offices (most of them in Toronto and Montreal) places it under the control of a few Easterners, which accounts for the unreasonable amount of Canadian money loaned to foreign enterprises and speculations. During the great financial stringency of 1908, the Canadian Bank Statement for January shows that \$38,000,000 was despatched to the aid of Wall Street, thereby working great hardship upon the people of Canada, who were in need of funds. It was during that period that the Canadian Government had to go to the aid of the farmers of the Middle West, lending them money which the banks in the ordinary course of their business should have done. In one of the largest cities in British Columbia it was impossible during that stringency to obtain loans from any of the banks, although in the branch of one bank alone certain people, after depositing in the savings department to the limit allowed by law, had for investment by the bank a further sum aggregating upwards of two-thirds of a million dollars. When corporations and men of integrity and of the highest financial standing applied for loans, they were met by the statement that the manager's power to make loans had been suspended by the head office until further notice. It appears to have been the same with all the banks. Later it was learned that British Columbia money (badly needed locally) was being used in the East.

This banking system which forwards most of the money of the branches to the head office is open to further criticism in that it retards the even development of a country. The only industrial and commercial projects which are in a favorable position to obtain the loans necessary for their institution and development are those situated in or near the headquarters of the banks. The consequence is that in Canada, with a population of six or seven million inhabitants, there are two great cities in or surrounding which is a commercial and industrial population of over one million people, who control the trade and carry on the principal manufactures of the country. This evil of the branch system is further emphasized in Australia, which has also a branch bank system, where, out of a population of a little over four millions of people, more than a million of these are congregated in or about the great cities of Melbourne and Sidney, which have appropriated to themselves a still greater control of the trade and manufactures of that country. In countries not wedded to the branch bank system, as England and the United States, we can find scores of cities of the first rank and innumerable cities numbering their citizens by tens of thousands, situated in all parts of the country, each fostering its appropriate manufacturing firms. This condition of affairs is brought about because each town has its couple of banks, with citizens as officers, all

with an interest in their town and anxious to see it flourish. A man applying for a loan is personally known to them; and they wish to help him as well as make money for themselves. Under the branch bank system as carried on in Canada, the branch manager is only nominally manager, and has no interest in the city wherein the branch is situated, for it generally happens that as soon as he has had time to become well acquainted, the head office transfers him to another city. The branch manager is further crippled by being unable to make a loan of any magnitude without a consultation with the head office in Toronto or Montreal, as as the case may be. This means at least a week's delay to Westerners, and there are hundreds of men in Canada who have lost good business opportunities because the head office could not see fit to make a loan on the recommendation of its branch manager, or

duly incorporated by act of parliament. The association draws up a schedule of certain charges to be made by the Canadian banks, thus making competition impossible. To show the close bond in which the Canadian banks are united, I will quote the words of Mr. X, formerly manager of a bank doing business in Dawson City during the Klondike boom:

"During the rush," said this gentleman, "the banks having branches in the Klondike did business at an enormous profit. When I had charge of the Dawson branch orders came from headquarters to charge 32% discount for loans."

"I suppose you didn't do much business at that rate?" said a friend. "A borrower would only need to step across to the bank to get a loan at normal rates."

"They could do no better for him at the

er who has not been heard of, and in respect of whose account transactions have ceased to take place for a period of years, say, ten. Several of the banks have unclaimed deposits, some of which amount to over \$10,000, and have heard nothing of the depositor for ten or twenty years. A few cases have happened where large sums of money have been paid into a bank in one deposit, and the person who made the deposit has entirely disappeared. It is true that there is a clause in the act calling for a yearly return to the Dominion Government, showing all dividends which have remained unpaid for more than five years and all amounts or balances in respect of which no transactions have taken place, or upon which no interest has been paid during the five years prior to the date of such returns; but the act should go further and provide for the paying over to the Government of such moneys for the use of the country,

bankers, on the ground that it would be absolutely impossible for any inspector or auditor to make a reliable estimate of the assets of a bank; they arguing that an inspector could not ascertain the real value of the customers' paper discounted by a bank, or even trace or count the cash; that an inspection of accounts without a valuation of assets would be worthless, and that it would be impossible for a Government inspector or auditor properly to inspect a Canadian bank on account of its many branches and the multiplicity and variety of the commercial paper in its assets. Many persons, they say, would make deposits upon the faith of an official report which would be more or less illusory. It is better, in their opinion, to rely on the careful organization of the bank, the vigilance of the directors, and the inspection by trained men of its own staff traveling from branch to branch and reporting to the general manager. Why a Government inspector cannot do this they fail to explain.

Mr. McLeod, the general manager of the Bank of Nova Scotia, recently resigned his position in order to work in the public interest and call attention to the necessity of a system of Government inspection of chartered banks. He has issued a pamphlet treating of banking abuses through lack of inspection, and setting out the procedure whereby he would remedy them. It is submitted, however, that his proposals do not go far enough. His scheme is that a board of fourteen auditors (four of whom shall form a quorum) shall be appointed by the Bankers' Association, and that the board so appointed shall make an annual inspection of each bank, and if, in such audit, the annual statement to the shareholders is found to be a fair and conservative representation of the bank's condition, the chairman of the Board of Auditors is to certify it, and no statement is to be issued without this certificate.

One of the particulars in which Mr. McLeod's scheme falls short is that it does not propose to give the inspectors power to obtain information under oath from the officials of the bank. In England, where, by a statute known as 25-26 Vict., c. 89, s. 69, a special system of inspection of limited banking companies is provided for, the provision giving the inspectors power to put the bank's officers upon oath has been found necessary in order to enable them to make their work of inspection thorough and effective.

Above has been set out the impressions of the Canadian banking system gained from the viewpoint of a fault-finder. Perhaps, after all, it is not the system which is at fault, but rather the method of carrying out the system. Perhaps the seeming faults are really blessings in disguise. Perhaps— But that I will leave for the reader to judge after perusing the next article, portraying the benefits which have accrued to Canada through the branch bank system.

A HINT TO ASPIRANTS.

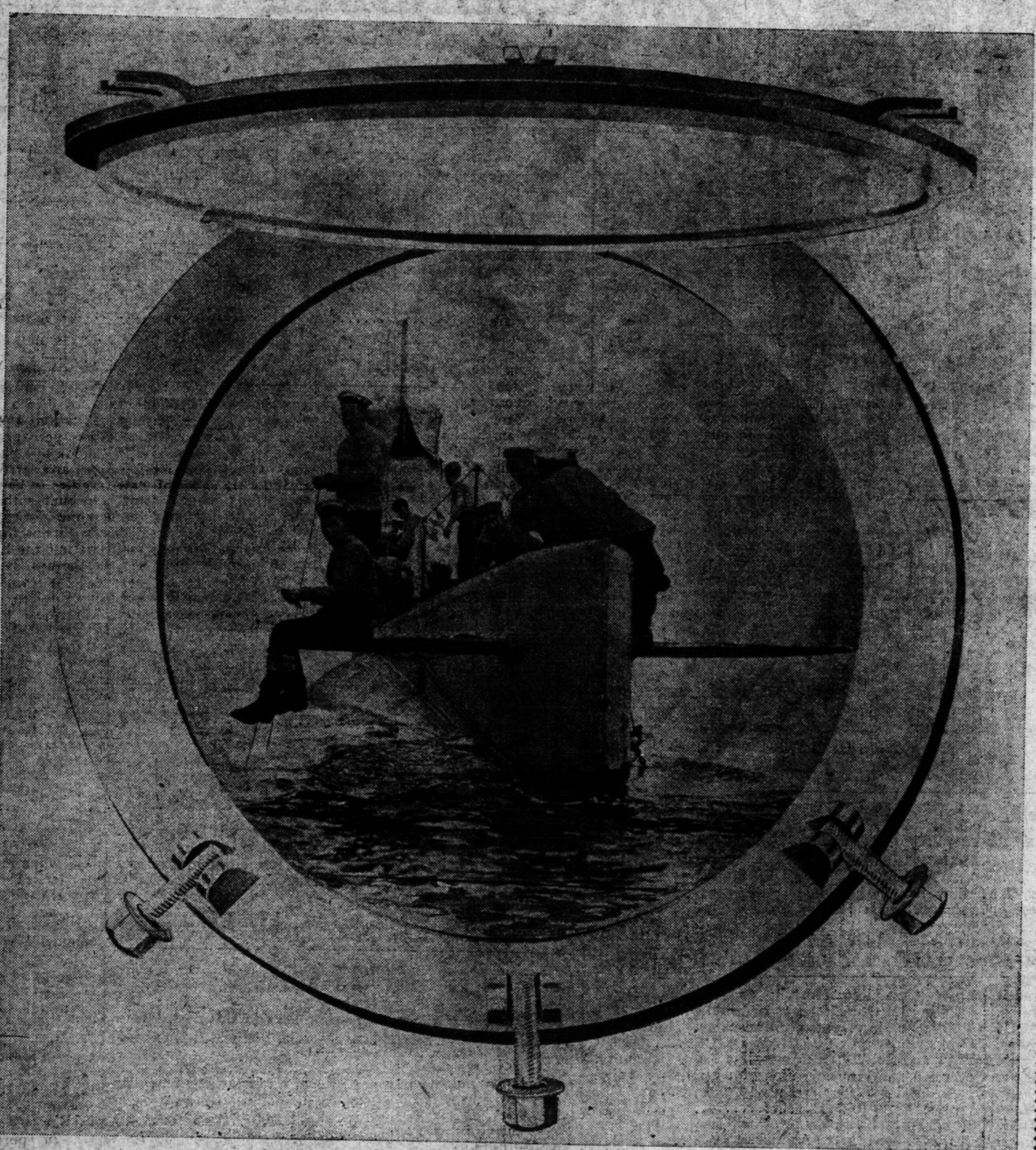
Twelve months ago aviators were congratulating themselves that such rapid progress was being made in the art of flying with, relatively, so few disasters. During the past few weeks of the present season, however, there has been a deplorable increase in the number of accidents, a large proportion of which has been fatal.

The cause is to be found, we believe, partly in the use of greater horse-power and higher speeds, which subject the aeroplanes to correspondingly large stresses. It goes without saying that when the engine power is increased, there should be a careful recomputation of the strength of the whole machine. The increased thrust of the more powerful engine makes itself felt throughout every part of the framework, and results in higher strains upon every strut, tie-rod, and lever, and upon every square foot of the supporting and controlling surfaces.

That the growing confidence of the airman is leading him to subject his machine to more strenuous usage will be evident to any one who watches the feats of such an expert, say, as Hamilton; and it is questionable whether even he realizes what severe strains his machine is being put to by the short turns and suddenly-arrested glides that form the sensational features of his public exhibitions. The many fatal accidents certainly suggest that in some respects we have been advancing too fast; and this is particularly true with regard to those enthusiasts who are building new machines and taking them out for trial without the necessary careful examination and overhauling. The laws of nature are inexorable, and they forbid that any inexperienced person shall take two or three planes, an engine, and a propeller; throw them hastily together in imitation of some successful machine; wheel the thing out into the open, and launch it into the air with reasonable hope of anything but swift disaster. The beginner should remember that such a veteran as Capt. Baldwin spent many days of experiment in running his machine over the ground and becoming familiar with it before making an attempt at actual flight. If the amateur were content to make haste slowly, the list of fatalities and painful accidents would be very materially reduced.

Before building an aeroplane he should study an engineering text-book on the subject in order to learn the stresses to which such a machine is subjected.

FISHING FOR THE FINNY TRIBE FROM FINS



The Crew of a Submarine Angling from the Diving Wings

approved of a loan too late to materially improve the condition of the borrower.

A certain prominent bank manager to whom the above facts were stated, said that it is true that the only businesses having a good opportunity to borrow money from the banks of Canada are those established in or near the cities of the head offices. The people of Vancouver lately recognized this, and as a result the Bank of Vancouver has been incorporated, although Vancouver has branch banks upon nearly every street corner in the business quarter of the city. The only conclusion that can be drawn is that the strong and even development of all parts of a country may be attributed in a great measure to a wise monetary system which retains the surplus wealth of each section of a country for the further development of that section, instead of permitting it to be drained off for the benefit of the older and stronger communities.

Any banking system like the Canadian system must provide for an incorporated central governing board to manage the consolidated banking interests. It is a part of the system. In Canada this body is known as the Canadian Bankers' Association, composed of representatives from each of the twenty-nine banks and

answered the manager; "we all charged the same rates."

Here we have clear evidence of the combination which can be effected under the Canadian scheme of banking, and which is making the banks so autocratic, by preventing them from being taught by competition to respect the wants of each community. The population of Canada has increased enormously during the last ten years, and this should warrant the establishment of more banks; but the Canadian institutions are practically the same in number as they were two decades. Why? As soon as a new bank has developed one of the older and stronger banks absorbs it, and competition is stifled in the bud. This amalgamation, besides lessening competition, means curtailment of banking facilities to the public, for duplication of branches is bound to occur. When the Royal Bank absorbed the Union of Halifax a few months ago, ten branches had to be closed through duplication, and this is bound to cause the lessening of monetary advantages in those places where duplication occurred.

A serious defect in the Canadian Banking Act is the lack of a clause compelling the banks to hand over to the Government all moneys which are in the bank to the credit of a custom-

rather than leave it under the control of private corporations. If a claimant appeared for the money the Government could hand it over to him upon satisfactory proof of his right to ownership.

A few words as to inspection: If we look over the history of Canadian bank failures, we find that none of the banks have met with disaster suddenly, but, on the contrary, the process has been gradually brought about by resorting to malpractices in the hope that through some lucky turn enormous profits would be gained. The only safeguard the shareholders have against such practices is the provision in the Bank Act providing that information shall be given to the Government by the banks themselves as to the condition of their affairs; experience has shown that in some cases the bank returns have been inaccurate to a startling extent. Outside of these returns there is no method of inspection whereby the interests of Canadian bank shareholders and others interested in such corporations may be efficiently protected, although several times clauses providing for public bank auditors and inspectors have been introduced in the House of Commons. Each time the scheme has been successfully opposed by the

Man's Calendar

OCTOBER

Opening of pheasant-shooting and Islands Electoral District (North Saanich); opening of fishing. Season now open for me.

Salmon-trotting, trout-

Exception of willow grouse Electoral District.

Willow grouse in the Richmond, Chilliwack, and in that portion of Electoral Districts on the lands adjacent thereto, on and in that portion of Kent and in Yale Electoral District, October and 31st December.

Willow grouse and ptarmigan may be shot only during the remainder of the month 1st September and 31st September inclusive.

Quail

Quail in the Cowichan, Esquimalt and Islands Electoral Districts, October and 31st December, both days inclusive.

Prairie Chicken

Prairie chicken may be shot throughout the month of October (except in Electoral Districts of Okanagan, etc.).

Geese and Snipe

Geese and snipe may be shot on inland and the Islands adjacent between 1st September and 28th September inclusive.

Geese and snipe may be shot on inland and the Islands adjacent to the Islands Electoral District, between 1st September and 28th February inclusive, and geese at any time.

Antelope or Coast Deer

Antelope or coast deer may be shot on the Islands adjacent to the Electoral District, between December 15, both days inclusive, and the remainder of the Queen Charlotte Islands, between September 1 and 31st September inclusive.

Wapiti

Wapiti may be shot anywhere.

Elk or Game

Elk or game may be sold on the Islands adjacent to the Electoral District, between September 1 and November 30 inclusive.

Elk and snipe may be sold in the province during the months of September and October, and in the Lillooet District, or the East Kootenay.

Account of a financial transaction in an office in New York. By some means or other the office boy owed one of the clerks the cash. The cashier owed the office boy having a cent due to diminish his debt, he handed the copper over to the cashier. The latter handed the boy, remarking, "Now I am square." The office boy again handed the copper back to the cashier, who passed it back to the clerk, thereby discharging the debt.

Some parts of Europe have a custom after the honesty of the person entrusted with the hat. If the hat is found with his right hand, the funds he must bring to a sign that he has not touched the common property; if, or even dead, he does not, the money.