

CANADIAN BANKING SYSTEM.

Operative in the United States Will Never Be Possible, So Said Senator Aldrich in New York.

As to how Europe avoids money panics, constituted an interesting part of an address delivered by Senator Aldrich before the Economic Club of New York the other day. He traced the effects of the panic of 1907 in America and spoke of Europe's excellent record in the matter of non-suspension of banking institutions. He dealt with the question of central banks and briefly reviewed the various important banking systems including that of Canada. "The immediate occasion which led to the appointment of the United States Monetary Commission," he began, "was the financial crisis of 1907, whose disastrous results can never be measured, and whose disastrous influence was felt throughout the world. The shrinkage in the value of property and credits which then took place, together with the losses arising from the paralysis or suspension of business amounted to thousands of millions. The country escaped by the narrowest possible margin from a total collapse of all credit, and the destruction of all values. To the great majority of the people of the country the blow came without warning.

"Most of our banking institutions were in excellent condition. Business of every kind was prosperous. Labor was fully employed at satisfactory wages. Industries of every kind were flourishing. Our people were full of hope and confidence in the future. Suddenly the banks of the country suspended payments, and acknowledged their inability to meet their current obligations on demand.

Concert of Financial Embarrassment.

"The results of this suspension were felt at once. It became impossible in many cases to secure funds, or credit, to move crops, or to carry on the ordinary business operations. A complete disruption of domestic exchanges took place. This concert of financial embarrassment affected seriously every industry. Thousands of men were thrown out of employment, and the wages of the unemployed were reduced. The men engaged in legitimate business and the management of industrial enterprises and the wage earners throughout the country, who were in no case responsible for the crisis, were the greatest sufferers.

"If we should undertake to measure in dollars and cents the effects of these recurring periods of depression and crisis, it would be an extremely difficult task. While our country has natural advantages greater than those of any other, its normal growth and development have been greatly retarded by these periodical disturbances of credit and confidence. I believe that no one can carefully study the experience of the other great commercial nations without realizing fully that the disastrous results of recurring financial crises would have been successfully prevented by a proper organization of capital and credit, and by the adoption of wise methods of banking and currency.

"Until human nature is changed it will not be possible to prevent by legislation or otherwise, periods of over-speculation, or the undue inflation of values and over-extension of credit. When we consider the characteristics of the American people, whose indefatigable energy and enterprise are not always confined by the limits of prudence, it is certain that we, in the United States, shall always have periods of speculation and inflation, with the evil results which are sure to follow. Other countries, however, have been able to prevent disastrous panics, and to largely confine the evil results of over-speculation and inflation to the people directly interested; that is, to the people who have violated the fundamental laws of business, and to their financial backers and supporters.

Europe Has An Excellent Record.

"There has been no general suspension of banking institutions, and no general destruction of credit in any of the great countries of Europe since the Napoleonic wars. There have been periods when great financial institutions or great merchants, have failed and great losses have resulted; but at no time has there been any general suspension. It is now believed by competent authorities that the authorized suspension of the Bank of England in 1847, 1857 and 1866, could have been avoided by the use of modern methods of treatment. Those suspensions permitted the unlimited use of notes by the Bank of England, but on only one of those occasions were there any additional notes issued. In the other cases the mere announcement of the suspension restored confidence, and the business of the country went on.

"Coming to the events of recent years, there has been but one serious financial trouble in England since 1866—the Baring failure of 1890. Baring Brothers were, as you know, one of England's greatest merchant houses. Their connections extended throughout the world. They became interested in operations and speculations on an enormous scale in Argentina and elsewhere, which resulted in the failure of the house. The prompt action of the Bank of England, with the

Bank of France and Bank of Russia, and the financial institutions of London, prevented any wide extension of the difficulty, and the Barings and their associates were the principal sufferers. The business of the country, and its industries and institutions went on as usual.

Strength of the French System.

"The strength of the French system was tried in 1882 by the failure of the Union Generale, one of the great joint stock bank of Paris; and in 1889 by the collapse of the Copper Syndicate, and the default of the Comptoir D'Escompte, another of the French joint stock banks; but the prompt and efficient action of the Bank of France in both cases prevented any spread of the trouble, and the business of France went on as usual; the only sufferers being these institutions and their immediate friends.

In 1901 the Liepziger Bank, one of the great institutions of Germany failed, creating consternation in Leipzig, and giving rise to trouble within a considerable, but limited circle. In that case the prompt intervention and interposition of the Reich Bank prevented any spread of the difficulty. The German industries did not suffer as ours did upon the occasion of the recent panic."

Central Institutions are Strong.

Mr. Aldrich in calling attention to these European happenings did not think that any member of the Monetary Commission believed that the system of any one of these countries could be adopted for the United States without very material modifications. He showed that the continued existence of the financial structure of all these countries depends upon the strength of their central institutions and upon the wisdom of their management.

The Canadian system which, he said, is largely based on the Scotch idea has many urgent and persistent advocates in the United States.

"It is certain that this system should and it will receive careful attention from the members of the commission. Members of the commission have made personal investigations in Canada, and these have supplemented and extended the valuable information contained in the volume referred to in our last publications, which is on the tables of the members.

Of the Canadian System.

"Canada has twenty-nine banks and 2,000 branches. They are practically controlled by the Bankers' Association, a legalized institution with certain defined functions. The control of the banks is not always under authority conferred by law, or even by the constitution and by-laws of the association. By agreements for mutual protection, which are equally effective, the banks of Canada are controlled. This is as thoroughly as the Scotch banks control the bank system of Scotland.

"Canada has an area about equal to the United States outside of Alaska. Out of her twenty-nine banks, nineteen are located in Toronto or Montreal, and the whole system is controlled by the bankers of these cities. The Bank of Montreal is practically the central bank of Canada. There are but three banks, and those not important, in the vast country west of Ontario. Think what the American system would be, and how it would be regarded, if we had but two or three banks west of Buffalo, and if the bankers of New York, and probably Boston, should decide upon the policy and the rate of discount of the whole system of the United States. And I have seen people who think that the Canadian system could be adapted to the United States!

"Canadian banks habitually carry large balances in New York and London, and in times of need rely for support upon those great financial centres. Competent authorities base the success of the Canadian system upon their extensive use of branches. Of course I realize that there are in this country a great many intelligent men who think we ought to have a system of banking like the Canadians; but unless I greatly mistake the character of the American people that will never be possible.

Personal Equation Counts Much.

"In my judgment any system which is to be adopted in this country must recognize the rights of the independents; of the 25,000 separate banks in the United States. In banking, as in everything else, the personal equation must always remain one of the most important elements in business transactions. The men who borrow from small country banks, or from banks in the larger towns, who have been accustomed to dealing in this respect with their neighbors and friends who have a sympathetic appreciation of their wants, will not be willing to consent that legislation shall authorize the displacing of such banks by agents sent from the banks of New York or Chicago to conduct the business of these smaller communities; men whose first interest—I am almost tempted to say whose only interest—would be the earning of the most money they could for their principals, and who would naturally have very little, if any, concern for the development of the communities in which they were located.

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