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BANKING IN CANADA.

It would surprise one to know the exact number of Canadian citizens who understand the usefulness of banks, the business transacted by them, the place they hold in our commercial life, and especially the laws that govern banking in Canada and to which all banks to exist must obey. The number of such knowing men would surprise for its smallness. It is a fact that people in general do not know or understand the first thing about banks. And what I say of Canada in this respect can be said with the same truth of any other country. Even amongst shareholders of joint-stock banks, the majority are found to be absolutely ignorant of the first principles of banking, and so can not be expected to do much but to give proxies at meetings. The general public should be better instructed as to what regards an institution playing such an important part in all business transactions of the day, and on the soundness of which depends the safety of a part of nearly every man's possessions, be it in deposits, in bank shares, in bank notes, or something else.

Banks are generally considered to be companies established to deal in money. It is true that they deal in money, but the term is too general. For example, a capitalist and a money-lender deal in money, and they are not bankers nor banks for that. The object of banks is to gather in all the savings of people who have not any present use for them, and to let other people have that money who need it for enterprises of different kinds, and who will make it profit. The bank however must always be ready to give back the money at its proprietor's demand, and to do that it can not make loans for any long period of time. It is a banker's business that he shall be in a position at all times to pay money on demand to those who shall have a right to demand it.

The big difference between a bank and a capitalist be-

resides in the nature of the loans that are made and the lengh of time for which such loans are made in each case. A capitalist has some money of his own which he wants to place to the best advantage regarding the revenue it will bring. To do this, he places his money on properties, on mortgages, in industries, where it is destined to stay for a time. The bank, on the contrary, furnishes money to the merchants in all branches of industry to enable them to carry on their transactions which require more money than they have. The money thus furnished is not the bank's, but that of somebody else who can call at any moment to ask for it. That is the reason why the banks can not make the same kind of investments as capitalists, and nearly all their loans are payable on demand. The law points out the different ways a bank can place its money, so as to be always ready to meet demands and avoid difficulties with the public which can provoke financial troubles and even a crisis.

We find ourselves in Canada to-day with a Banking System which can be compared with advantage to any other in the world. But one must not think that it was always that way. No, before becoming what it is, it had to pass through all the phases of infancy and youth, and it is only by meeting with accidents and days of trouble that the defects of our banks were found and seen and could be remedied; and as a result we have the present structure. Of course it is not perfect yet, but it can be safely said to be on the way to perfection.

Now let us see the march which banking has followed in the country, and the evolutions and transformations of which it was made the subject.

HISTORY OF BANKING IN CANADA.

French Rule.

In the first days of the colony, barter was the only means of exchange, and although it remained that way for

for a long period, time came when the need was felt for a medium of exchange.

During those years, very little money came to Canada, and what came returned at once to France because the country needed much more from the outside than it could produce and export itself. So, there was then no object of a set value through which exchanges could be made, and barter kept on being practiced until the people had to establish a standard of their own or suffer great difficulties.

The first Canadian money was introduced by the "French West Indies Company" around 1670. It consisted of silver and copper coins.

In 1679, for three months, owing to strained monetary circumstances, wheat was considered as a legal tender. In like manner, about 1684, moose skins were a legal tender.

From 1685 to 1718, owing to difficult financial circumstances in France and therefore in the "Nouvelle-France", a certain card money was introduced which in reality consisted of promissory notes redeemable by the Treasury.

From 1719 to 1728, French coined money was again put in circulation here and served as the medium of exchange, but it was not destined to remain long, and owing to its disappearance, we again see card money put in circulation from 1729 to 1749 and made redeemable by drafts on the French Treasury.

From 1750 to the capitulation in 1760, we moreover have outside of the card money, certain "ordonnances" emanating from the Intendant Bigot. This card money and the "ordonnances" were in 1766 redeemed by France at a very low discount and in French public securities which, a few years later, lost nearly all their own value.

English Rule.

With the English rule, Mexican and different European coins are seen to enter the country. These in the course of time were given legal tender, and this state of things existed until the decimal system of dollars and cents appeared.

All

All of these different kinds of money, the often change of legal tender and other usages were a hindrance to commerce, and the need began to be felt for a currency of our own and some kind of a banking system.

In 1792, following the example given to us by the United-States, where chartered banks had been existing since 1781, the "Canada Banking Company" was established in Montreal to carry on the usual business of banks. But its great defect was that it lacked the power to issue notes, and it could not be very useful as it did not add to the circulation.

In 1812, money was required to face the exigencies of the war with the United-States. A uniform currency also became then urgent to stimulate commerce which was struggling with its many different kinds of money. To face these two propositions, the parliament of Lower Canada in its sessions of 1812, 1813 and 1814, authorized the issue of Army Bills which were Government notes of different denominations, the higher ones bearing interest, and which were redeemable by the Province who pledge its revenues to guarantee them. These issues were made legal tender, and being a success, accomplished the object for which they were intended.

In 1812, we also see the Government of Nova Scotia issuing notes on the province, and it continued to do so for years afterwards. The object of this issue however, was not, as in the case of Lower Canada, to face a demand or need, but was simply a way of borrowing money from the people. In 1867, at the Confederation, Nova Scotia had a debt of £ 605,859 which the Canadian Government assumed.

The system tried in Lower Canada had proved a success, but as all the notes were being redeemed from 1815 to 1820, the need for a uniform currency was again felt by commerce, and more than before, owing to the latter's expansion. And here is the time when people began to establish banks for good.

In 1817, the Bank of Montreal was founded as a private

private society. In the following year, 1818, we notice the establishment in Montreal of the Bank of Canada which had a very short existence, and in Quebec of the Bank of Quebec, where it still has its head office. The three of these banks could not get charters before 1822.

In Upper Canada, the same needs were felt as in the Lower Province, and as a consequence, we notice the same crop of banks.

In 1817, there was a charter asked for the incorporation of the Bank of Upper Canada, which was granted only in 1821. In the meantime, the promoters had been doing some private banking business under the bank's name, but the chartered bank in 1821 did not take over that business and the private bank went out of existence. This bank failed in 1866, and its failure caused a most serious set back to the development of Banking in Canada.

In New-Brunswick, we see the Bank of New-Brunswick chartered in 1820, with a capital of £ 50,000, and its head office in St. John, N.B..

In Nova Scotia, the first chartered public bank to appear is the Bank of Nova Scotia in 1832. This was the first bank of the country in whose charter was included the principle of the double liability of shareholders. The Halifax Banking Company which had been doing private business since 1825, was also chartered in 1872.

At the time of Confederation in 1867, there were four chartered banks and five charters for new banks in New-Brunswick, and five chartered banks and one charter for a new bank in Nova Scotia.

The bodies previously mentioned were those which first introduced banking in Canada and initiated the people to its working and its advantages.

Now that banks had been established for a few years, and that the people had had a chance to notice the advantages which the system carried with itself, banks could be looked to prosper and the establishment of new ones was expected; and so it happened, specially in the provinces of

of Lower and Upper Canada, where the majority of the population resided and where the greatest part of the commerce of the country was carried on.

Let us now see the march followed around and from that time to the Union of 1841 by banking in those two larger Provinces.

Lower Canada.

To add to the number of banks which already existed in Lower Canada, the City Bank was chartered in 1833 with head offices in Montreal. Moreover, the charters of the banks already existing, were renewed from time to time as they expired. The tendency then first appeared to give uniform charters to all banks and to have all such charters expire on the same day.

In 1835, was established a private bank which was unique in the form of its constitution. It bore the name of "Viger, DeWitt & Cie.", and afterwards became "La Banque du Peuple". It was an ordinary partnership consisting of twelve men who controled the majority of shares of the company and who were permanent directors, being at the same time responsible and liable for all the business of the bank. Outside of these, there were other smaller partners who did not have nor could have anything to do with the direction of the bank, and who were liable only for the amount invested by each one of them. This bank has gone out of existence a few years ago.

In 1836, a bank called the Bank of British North America, was formed in England, to do business in North America. It had a royal charter, and afterwards the necessary legislation regarding its powers was passed in the provinces where it was required.

The private bankers who, as a rule, were not permitted to issue notes, were however allowed to do so for a time after the rebellion of 1837, owing to the disorganized condition of trade and finances.

Upper Canada.

We notice in Upper Canada the great expansion which

which the banking system was taking.

In 1831-1832, a charter was granted to the Commercial Bank of the Midland District with head office at Kingston. We also notice in 1835, the incorporation of the Gore Bank with head office in Hamilton.

The government at that time did not seem to be favorable to the granting of any new charters, and as great wants were felt by the commerce and the country in general, many private banks were established and they issued notes.

In 1837, there was a law passed prohibiting all banks in the future to issue notes without that power being first granted to them by the legislature, the banks however already enjoying that privilege being allowed to continue.

The people were enterprising and many modifications were suggested affecting the banking laws then in force. Many legislations on banks, banking and note issues were proposed at the time, but they either did not pass the Provincial Assembly or were refused the royal assent. And it was rightly done so, because some of those changes would have caused more trouble than anything else. It is true there were many unsound practices, but the banks still resisted and there were no failures registered.

It was between 1830 and 1840 that branches first began to be established.

In 1838, in order to be able to do business in Upper Canada, the Bank of Montreal which even then was getting to be the most powerful body of its sort, purchased the Bank of the People.

Panic of 1837.

There is a period in our commercial history which is known as the panic of 1837 and a word should be said of it.

In that year, the United-States suffered from financial troubles which could not do otherwise but have their effect on our own institutions. In the neighbouring Republic, the crisis was so sharp that banks had to stop all payments in specie.

To add to this uneasiness, came the rebellion of 1837-

1837-1838, in Lower and Upper Canada, which caused the payment in specie to be stopped by the banks in these provinces.

Union of Lower and Upper Canada.

Until then, all the provinces had been separate bodies administering their own affairs independently from one another, and it was to remain so for the greater number of them until the Confederation of 1867. It was not however to be the case for the two largest provinces, and Lower and Upper Canada were united to form only one body, in the month of February of 1841.

After this Union, there was a tendency to give to all the banks doing business in the affected provinces, uniform charters, and as the different charters expired, they were renewed in a modified way, so as to conform with the general principles. A movement was also on foot to ameliorate the system, and the effect was to make the latter approach more in many ways to that which is now in force. One of the new laws was that forcing the double liability on all banks. The legislation then passed served to make the foundation of the banking system which was definitely established after the Union of all the provinces.

From 1854, we notice a greater commercial activity, owing to the treaty of reciprocal trade passed with the United-States that year. From 1855 to 1866, more than twenty-five bank charters were granted.

In 1866, the bank of Upper Canada failed. It was supposed to do a prosperous and extensive business, and owing to the great credit it enjoyed, its failure gave the gravest shock to the public confidence in banks, that we have ever had. This disaster was due to the bank's backing of some very speculative real estate and railway ventures.

During the Union, there were two big mistakes made regarding banking:

The first one was the passing of the "Free Banking Act of 1850". It was an imitation of the system of small private banks existing in the United-States. One of its

its clauses authorized small private banks to be formed and to issue notes of small denominations. As could have been expected, the new system did not produce the benefits which had been claimed for it, and it died of itself a few years later.

The second mistake was the "Provincial Note Act" passed in 1866. Its object was to stop the note issue of banks and replace it by a Government issue. Certain inducements were offered the banks to engage them to withdraw their notes in circulation, but they all refused with the exception of the Bank of Montreal which was in special favorable circumstances to do it. The Government notes were made the legal tender, and the Bank of Montreal became the agent of the Government for the issuance of the latter's notes. Resulting from all this, a keen rivalry arose between the Bank of Montreal and the other Banks, with the result that through misunderstanding, a bank of the west of the Province which was perfectly solvent, was allowed to be put in liquidation, owing to a run made on it when it was engaged backing the construction of a railway. This was a matter which affected all banks, and no body was found at the time to support the one in trouble. The general effect was a run on all banks, a new loss of public confidence in banks, and the business panic and financial disaster of 1867.

Confederation of 1867.

We now come to the time when the principal provinces of Canada were united in one big body with a central government having power on all things of general interest; each province however retaining the right to legislate on things local. This union was effected by the "British North America Act" of 1867, which also contained clauses regarding the admittance of other provinces who would like to join the Confederation later on. By this Act, the exclusive power of legislating on matters relating to coinage, currency and banking was given to the Federal Government.

In 1870, an act was passed prohibiting banks from is-

issuing notes smaller than $ 5.00, which were to be issued by the Government.

The Parliament of 1871 passed a law providing that all provincial banks should come under the Dominion Act as their charters expired, and that all Dominion charters were to expire in 1881.

Lastly the "Dominion Bank Act" was passed in 1890 and came into force in 1891. The new act repealed all previous laws relating to banking in the country, and established the system on a sound basis and for all banks. It is the one most interesting to us as, except for a few minor changes which have been made to it from time to time as the needs were felt and met, it is the law governing us to-day.

I immediately give a general summary of our banking law as it is presently in force.

THE CANADIAN BANKING ACT.

Constitution and Organization of a Bank.

Before opening a bank in Canada, at least five men must associate and apply for a charter to the Federal Government. The charter, if granted, mentions amongst other things, the amount of the authorized capital of the new corporation, which can not be less than $ 500,000.00. As soon as this is done, the temporary directors must get such capital subscribed for at least $ 500,000.00, of which at least $ 250,000.00 must be paid and deposited with the Minister of Finances. A meeting is then called of the shareholders of the new body, and directors, of which there must be at least five, are elected to manage the business of the bank. To be elected a director and to continue to act as such, a man must be the owner of a certain amount of the bank's shares varying with the whole amount of the bank's capital. If the capital is $ 1,000,000.00 or less, a director must have shares on which at least $ 3,000.00 is paid; if the capital is more than $ 1,000,000.00 and not

not more than $ 3,000,000.00, $ 4,000.00 must be paid on the director's shares; and $ 5,000.00 must be paid on the shares if the capital is more than $ 3,000,000.00. In all cases, the majority of the directors must be British subjects, either by birth or naturalization.

After the election previously mentioned, if the Treasury Board is satisfied that all the required conditions have been fulfilled, it issues a certificate authorizing to start banking and to do all operations going with it. That certificate must be obtained by the bank in the year following the sanction of the law constituting it, and otherwise all rights granted by this law become null and void. When the certificate is given, the Minister gives back to the bank the amount deposited with him, less the sum of $ 5,000.00 which is kept for the Redemption Fund for notes. If, for any reason, a certificate is not issued, the whole amount deposited with the Minister of Finances is given back to the persons who made the deposit.

Once a bank has started business, it must submit itself to a certain number of laws regarding its internal management, which are edicted by the Banking Act. These laws concern amongst other things, the shareholders' meetings, the election of directors, the duties of directors and employees, etc.. Different clerks fulfilling important positions to which much responsability is attached, must give bail or a guarantee of their honesty. It is a practice to have the honesty of such clerks insured by insurance companies. At the meetings held for the election of directors, each shareholder has a right to as many votes as he owns shares, and the majority of votes decides.

Capital.

I have mentioned before that the capital of a bank can not be less than $ 500,000.00, of which at least $ 250,000.00 must be paid. This capital can never be augmented nor diminished without a resolution being passed by the shareholders to that effect at a meeting, and without the approval of the Treasury Board, and also only after

after going through some formalities which are a necessity required by law. When the capital is increased, the new shares are offered for subscription to shareholders already on record, and on their refusal to outside people. In the case of a reduction in capital, the responsability of the shareholders on record at the time of such reduction, is not diminished towards the creditors of the bank at that time.

Shares and their Payment.

Fixed rules govern the subscription and the payment of shares of a bank. The principal one is that the shareholders can be called upon at any time to pay on what is due on their shares the amounts thought necessary by the directors; and the former are obliged to answer such calls by paying what is asked of them, under pain of forfeiture of their shares.

Transfer of Shares.

Owing to the double liability attached to the ownership of bank shares, much care is taken to know at all times who are the owners of shares, and if they are responsible persons. An article prevents the selling short of any bank stock, to buy it afterwards. Speculations affecting the market value of bank shares are thus prevented, and only good can result from the stability ensuing. Another important rule is that bank shares are not supposed to be transferred and the vendor of such shares remains liable until the purchaser has accepted them in the books (registry book) of the bank, in person or by attorney.

Shares in Trust.

In the case when shares are deposited in trust with someone, to be administered, the bank is not responsible for such administration, and the trustee is not personally liable to the bank.

Annual Statement and Inspection.

At each general meeting of shareholders, the directors must submit a statement showing exactly the financial position of the bank, and also all other statements which

which the shareholders may demand, with the exception of statements regarding accounts of clients of the bank.

The directors, and only them, can at any time examine the books of the bank.

Dividends.

Directors can declare the dividends which seem advisable and proper to the majority of them. These dividends however must not be made to draw on the capital, and if such a thing is done, the directors who did it with knowledge, are personally and as a body responsible to the bank for the amount declared over surplus, just as if it was an ordinary debt due by them.

No dividend of a higher rate than 8 °/o can be declared unless, after it has been paid, there still remains to the credit of the bank, a reserve of at least 30 °/o of the paid up capital, deduction having been made of the bad and doubtful debts payable to the bank.

Reserve.

No reserve is made compulsory by our Banking Act. However, if there exists any such reserve in any bank, at least 40 °/o of it must be composed of Dominion notes.

Note Circulation.

Banks have the privilege of issuing paper money or notes. These must be for at least $ 5.00 and multiples of it.

As a rule, the total issue of a bank can not exceed the amount of the subscribed capital. However, for commercial purposes and to favor the transportation of crops, from the first of October to the thirty-first of January inclusively in each year, banks are allowed to issue notes for an amount equal to that of the total capital plus 15 °/o of the sum of the capital and the reserve. Starting with the first of February, banks must gradually reduce their circulation to the normal standard by keeping the notes as they come back.

Under this heading, there is a certain clause regarding the Bank of British North America, according to which

which the circulation of that body can not exceed 75 °/o of its capital, unless an equal amount in specie is deposited with the Minister of Finances for the whole amount of the circulation which is in excess of that 75 °/o.

Banks can also, under certain conditions, issue notes in the British Colonies, but the notes used to that purpose can never be reissued in Canada.

Redemption Fund for Notes.

This is an institution for safeguarding the holder of bank notes, and of providing good security for such notes. When a bank closes its doors, all its assets, comprising the double liability and the amount deposited in the fund by the bank, first go to pay the notes it has in circulation. If those assets are not sufficient, then the notes are paid by the Minister of Finances out of the whole Redemption Fund. And if it happened that still more funds were required for the purpose, all the banks would be called upon to make good the deficit.

Once a certificate has been issued allowing a bank to start business, out of the amount of capital originally deposited with the Minister of Finances, the sum of $ 5,000.00 is kept to form the contribution of the bank to the fund, and that amount remains unchanged until the annual settlement of the next year. At the end of each following year, each bank either deposits a supplementary sum or a certain amount is remitted to it, so as to keep its share in the fund always equal to 5 °/o of its mean circulation during the year. Interest at the rate of 3 °/o is paid by the Government to the banks on the amounts they respectively own in said fund. When notes of a bank have been bought by the Government and paid out of the fund, if the amount of such notes exceeds that of the share of the bank in the fund plus the interest accrued on that share, then the amount of the notes thus in excess bears interest at the rate of 3 °/o until the time they are bought back by the bank.

Whenever a bank suspends its payments, its notes bear

bear interest at the rate of 5 °/o from the date of suspension until that fixed for the payment of the notes.

The Minister of Finances is authirized to pay out of the Redemption Fund all notes which are not paid by the bank that issued them.

If the fund is at any time reduced below normal by the payment of the notes of a bankrupt bank, the other banks are requested to make it up in their respective proportions, but gradually at the rate of 1 °/o of their circulation each year.

If the notes are paid by a liquidator or other official seeing to the liquidation of a bank, the Minister pays back to him at his request the share of that bank in the Redemption Fund.

Branches.

All banks have the right to establish branches, and as many as they judge necessary to their business, throughout Canada.

Banks are aslo obliged to assure the redemption at par of their notes in the principal centers of Canada, and that is usually done by means of branches.

Signature of Notes.

Notes of a bank can be made and signed by means of a machine, provided they bear the signature in handwriting of an authorized officer of said bank.

Operations and Powers of Banks.

Banks are allowed certain powers and are submitted to certain restrictions in their operations, and they must comply with the law edicting them.

Amongst other things, they are entitled to deal in species and bullion, open branches, receive deposits, make loans and advances guaranteed by stocks, bonds, etc.... Banks are not however allowed to trade in merchandise, goods, etc., and especially are they forbidden to trade in their own shares.

A bank has a lien on the shares owned by its debtors, and those can be sold in certain cases. Collateral securi-

securities can also sometimes be disposed of by sale.

A bank can purchase immoveable properties for its own use, and can sell them and purchase others. Outside of what is for its own use, a bank can moreover acquire immoveables under certain restrictions.

Deposits up to the sum of $ 500.00 can be received by banks from persons who otherwise would be legally incapable of contracting, and such deposits with the interest accrued thereon can be paid back to the depositors.

Purchase of the Assets of a Bank.

A bank can be sold to another bank, provided such a sale is approved by 2/3 of the shareholders of the bank sold, by the majority of the shareholders of the bank buying, and by the Governor-General in Council.

In case the capital of a bank must be raised in order to make such a purchase, such a raise requires a number of formalities which are not necessary in the case where an ordinary raise in capital is required.

In the event of such a sale, the notes of the bank sold are assumed by the purchasing bank, and the latter receives credit for the share of the former in the Redemption Fund.

Reports to the Government.

Monthly and annual reports of the business transacted by each bank and of its financial position, must be sent to the Minister of Finances, every month and year respectively. Moreover, all special statements required at any time by the Minister must also be sent to him by the bank.

Lists of all sums of money which have not been claimed for a given time, must be sent at definite periods to the Government.

Payment to the Minister in case of Liquidation.

In case of the liquidation of a bank, all amounts not claimed inside of a certain time are remitted to the Minister who pays them to the proprietors whenever they call to claim them.

Trustees.

Trustees.

If a bank suspends its payments, a trustee can be appointed to look after its affairs and nothing can be done without his approbation. This nomination is made by the Bankers' Association which retains the power to change such trustee at will.

Statutes passed by the Association of Canadian Bankers.

This body is a representative one of the banks of Canada and important powers are given to it in order that it might see that the business of all banks is cunducted honestly and according to the law. This is done with the object of protecting the public and the shareholders.

Failure.

In the case of the failure of a bank, the following items in the order named, are privileged against its assets:
1o. Notes in circulation and the interest on them;
2o. Amounts due to the Federal Government;
3o. Amounts due to the Provincial Governments.

If the assets are not sufficient to meet all the liabilities, the double liability clause by which shareholders are responsible for an amount equal to that of their shares outside of that already paid for the shares, is put in force.

Contraventions and Penalties.

For all contraventions to this Act, fines and other penalties are edicted which are more or less serious with regard to the importance of the law broken.

ADVANTAGES AND DISADVANTAGES OF OUR SYSTEM.

After examining our Banking Act of which I have just given a synopsis, one is struck by the thouroughness with which all points are touched and every thing treated. There are some few little defects as always accompany such extensive and general laws, and these afford problems for the experts in the matter to study and find solutions to.

One of the greatest cares of the Parliament of Canada has been to see that banks that applied for charters were

were sound business bodies whose object was to do serious business and not only profit by the advantages and privileges which go with a charter. This is the reason why the required subscribed and paid up capital of banks is fixed at a relatively high figure, and also why that paid up capital has to be deposited with the Minister of Finances before any charter is granted. Moreover, to be sure that banks applying for charters are enterprises with good financial backing and that the capital has really been paid which is required, this amount of capital must be paid in money and it can not be made up of notes or otherwise. These legal tendencies may be seen to have taken root here pretty far back, and we notice them with the beginning of first serious banking in the country. The clause providing that the majority on any board be British subjects insures us against the danger of foreign capitalists getting control of our banks and using them to their own advantage and to the country's detriment.

The high capitalization which is required, as we have seen, makes the banks stronger, and puts them in a better position to do good to the country and to aid big enterprises as well as on a more solid foundation to resist attacks when depressions come. A good number of our banks have a capital paid figuring in the millions, and the Bank of Montreal heads the list with one of $ 14,000,000.00. Instead of $ 500,000.00 as required in Canada, a capital of only $ 25,000.00 is required of a bank in the United-States; and the only effect of such a state of affairs in the neighbouring Republic must be the promotion of weak financial bodies. It is evident that such small banks would be stronger if merged into big corporations. The evil of such a system has been avoided here.

The other clause relating to capital which requires the consent of shareholders and of the Treasury Board before any increase or reduction is made in it, and the going through certain formalities, insure that such a change must be done honestly. A

A law prohibiting the selling of shares that do not exist, to buy them later on on the market at a lower price, or in other words the playing short, can not have any but a very good effect which consists in preventing undue speculation on bank shares.

A point which has led to much discussion is that regarding the inspection of our banks. As it is, each bank does its own inspection and can refuse the permission to any outsider to see its books, even to representatives of the Bankers' Association and of the Government. A man is appointed to make the internal inspection of a bank by its own board of directors and he reports directly to them, and the latter can act according to what they think proper. It is true that reports about its standing and business have to be submitted for each bank to the shareholders at their general meetings, and to the Government at certain fixed periods, but this is no sure guarantee. These reports can always be fixed up so as to make them look very attractive, when the bank can otherwise be in very bad straits financially. And numerous are the cases which can be shown in which false reports were handed out to both the Government and the shareholders for years and years in succession, only to have the fraud known when it was too late, when the bank was a complete failure, and when nothing could be done to spare the people from enormous losses which were due only to the bad management and to the dishonesty of directors. This is the story of nearly every bank failure we have had to cope with since our Banking Act is in force.

The Government to-day is not allowed the slightest supervision of the banks. It requires certain reports, but as it has no power to see for itself if they are true, this does not amount to much. The only restraint, if it can be so called, which is to prevent banks from getting into frenzied speculations, is the Bankers' Association. This body, which, as I said before, is the representative one of Canadian banks, can boycot a bank if it is seen doing

doing or suspected to do any risky or illegal business. By boycot is meant that all banks of the Association will be ordered to stop all relations with the bank in fault. An action of the sort puts the public on the alert, most of the time provokes a run on the bank affected, and this can only reflect to a certain extent on all the banking community. As banks fear any run being made on them or other troubles of the sort, they will restrain as long as they can from in any way provoking any. The other difficulty is for the Bankers' Association ascertaining the truth of its suspicions when it has no authority to do so.

As it is, all the trouble lies in our mode of bank inspection. Some claim that it should be done by the Bankers' Association which has the greatest interest to see that all banks keep a high standard of credit. But bankers themselves oppose it and the reason seems to be that all banks individually do not want their business to be known to other banks, and such a knowledge would undoubtedly come with such a mode of inspection. Other people have proposed a Government inspection and want to introduce here the system in use in the United-States. Statistics of that country are given both for and against the proposition, and no good comparison can be made with our system owing to our having big banks with branches, and the United-States having proportionally a larger number of banks, with smaller capital, and no branches. This mode of Government inspection is not very popular, specially among the knowing men, and bankers, with few exceptions, are altogether opposed to it. Banks must certainly be allowed as much liberty, for the good of the country, as prudence will permit, and the interference of the Government in the internal working of banks would surely have a completely contrary result. There would also be the danger of letting business secrets leak and become known by people who should not have that knowledge. The question would also arise of making such an inspection effective, and to be that, it would have to be done at all banks and at all

all branches on the same date without the banks anticipating it, for otherwise everyone would be prepared for it. The difficulty of such a thing is clearly evident on account of the great number of branches and the secrecy with which the preparations for the inspection would have to be conducted. And then, would all the Government officials be strong and independent enough in order to avoid bribery and fraud?

As things stand, we must admit that there is something to be done in the matter of inspection, but it is hard to say as yet what that something should be. No doubt, a system of inspection done by a body altogether independent from the banks would be immensely beneficial to the country, and the problem is to find that body. In the meantime however, and to improve things, reports could be required from the banks which would be more explicit and would put the Government and the shareholders in a better position to judge and to control their actions. This would be arrived at by changing the formulas for such reports.

Now, as to what concerns dividends, the clause making directors responsible for those impairing the capital is undoubtedly a good one in theory, but it is claimed that it never served to anything in practice.

The article requiring of each bank to keep a certain percentage of its cash reserve in Dominion notes was originally caused by the needs of the Government. The object aimed at was to create a credit for the country when it had a whole lot of works to do and many obligations to face therefrom, and when capital for such enterprises was needed. But now that the Government's credit is so well established, the clause should be done away with, because it is a hindrance to banks and with no good at all to be derived from it.

Our system of note circulation is one of the best that could be found and it is not open to much improvement. It is true that the circulation allowed is a large one, but as only chartered banks, which are sound business hou-

houses financially, can thus issue notes for circulation, and that special care is taken to protect the redemption of such notes, only good can be derived from an issue of the kind. It creates a fiat money in an amount sufficient to meet with the requirements of commerce and industry, and with enough security behind it to insure its par value throughout the country. The special clause permitting of a circulation larger than the normal during the months of autumn, is of an immense service for the moving of the crops during that season. The weak point is that the Government has nothing but the reports handed by the banks to judge of their circulation, and so the door is left open to frauds. This point could be made more secure only with a mode of ascertaining the veracity of the reports, and that could happen only with a better system of inspection. Some people have advocated that the Government should guarantee the redemption of the bank notes put in circulation, but that seems secure enough with our redemption fund and the other safeguards we have.

Concerning our Redemption Fund, nothing but praise can be said of it, and of all systems, it has proven itself the best to fulfil its object. It forces all banks to do as much as is in their power to prevent any illegal and extravagant circulation being done, on account of their joint responsability for such circulation.

We come now to a most interesting point in our Banking Act, which is that by which banks are authorized to open branches throughout the country. The banking system of Scotland with its branches was the source from which this part of ours was drawn. The principal advantage of the branch system is to receive in deposits the money of people throughout the country who have no use for it, and to transfer it = to places where such need is felt, and so to make it produce to the benefit of one and all. In this respect, the branch system might be compared to a large river receiving its water from a great number of little springs and streams which at a certain place unite and form one

one big body which has power therefrom and utilizes its water to good advantage, by watering the land, permitting navigation and otherwise. The branch system also favors the villages and small towns, with banks as strong to do business with, as are in the big cities. And that is something missing in the United-States. A big industry established in a small Canadian center finds an institution powerful enough to back it; and the bank doing all the business of such an industry and doing it directly with it, can better know the latter's financial condition. Canadian banks are always ready to assist country enterprises which can give a good account of themselves. This is more difficult in the United-States, with the private banks.

It is surprising to note the branch extension our banks have taken in the last few years. The following table will give a good idea of this:

Year.	Number of branches.	Increase in year.
1899	663	
1900	708	45
1901	750	42
1902	904	154
1903	1049	145
1904	1145	96
1905	1454	309
1906	1745	291
1907	1886	141
1908	1927	41
1909	2164	237

At the beginning of the month of May of this year (1910), there were 2326 branches of Canadian Banks, of which all but 50 were in Canada.

The law prohibiting our banks from making different kinds of loans, such as those on real estate and merchandise, is made to prevent the banks' money from being tied for any long period, which would put them in bad difficulties if a run occurred or in time of crisis. A similar rule is in force in the United-States, but it is not so in En-

England and Scotland where banks are free to make any loans they please. It has been suggested that a certain proportion of the assets of banks should be made realizable on demand, thus forming a protection against runs.

The Bankers' Association is one made out of the representatives of Canadian Banks and its business mostly consists in controling in a certain way and to a certain extent the business of all banks. The authority it has of appointing trustees to a bank which has stopped its payments, is said to have a bad effect. Often times, it would be preferable to both the public and the shareholders, if the banks were allowed in such cases to settle their own affairs themselves. But with such a liberty would also go the danger of leaving the field too free to frauds. It is part of the business of the Association to issue, redeem and destroy the notes of the banks under its suspension.

The part of the law regarding the failure of banks and the settlement of their affairs, appears to be defective in some ways. In the matter of privileges on the assets of a bank, the Federal and Provincial Governments rank right after the note holders, for the amounts of their deposits and the fines incurred by the bank. It is a matter of essential necessity that note holders must come first and be perfectly guaranteed for the paper they hold, for were it otherwise, all our fiat money would be perfectly useless and the advantages which come from it would immediately disappear. But where is the reason for the preference given to Government depositors over the common citizen? Those in favor of the present law claim that the general interest should pass before the private one, and that it is better that a few individuals should suffer than all the people through its Government. Theorically, this sounds nice, but as a matter of fact, I think with others that all creditors of a bank, after the note holders, should be treated on the same standard and that, were some privilege to be granted someone, it should be to the private credi-

creditor who as a rule has not the means of sustaining a heavy loss without ruin, and who is not in the position and has not the capacity and advantages the Government has to judge wether a bank is sound or not. Moreover, it is the duty of the Government to see that all things necessary to the good and advancement of the country are put at the latter's disposal. Banking is a necessity of that kind, but its operation is left in the hands of companies called banks, and laws are made to regulate and control those companies. When a man makes a deposit in a bank, he has a right to beleive his Government has taken all the precaution necessary to ensure his deposit being secure and safe. And if such is not the case, the Government is in a way responsible if the deposit is lost. The savings accounts might even be privileged right after the note holders in order to encourage savings from the working classes.

Some people have gone as far as to say that it was not just to permit the debtor of a bank that had failed, to compensate his debt with the deposit he had in the bank. That is going too far, but a practice that should be stopped, is the buying by such debtors, and at ridiculous figures, of deposits that are not worth anything, and the compensating of their debts with those deposits. This allows the debtor to pay much less than he really owes, and to the detriment of all the other creditors of the bank.

This study of failures naturally brings about the question of the double liability of shareholders. This double liability is one of the strong points in our Banking System. According to it, a shareholder, outside of the liability for the payment of the shares registered in his name, is moreover responsible, if the bank gets into any trouble, for another amount equal to that of his shares.

The early banks in Canada had no provision to that effect, and the first charter which contained it was that of the Bank of Nova Scotia granted in 1832. Long before

before Confederation, the principle of the double liability of shareholders was a recognized one, but it had no practical value, as the shareholders always succeeded in avoiding the second payment, or transfered their shares before such payment was asked, to incapable persons from whom the money could not be collected or to persons who could not pay. Lately, that has not occured and the law now makes it impossible. To ensure the payment of this double liability in case of need, special care is taken to see that the shares be owned at all times by persons being financially capable of making such payment. In this way, the guarantee given by any Canadian Bank is a first class one, and this state of things inspires faith and confidence in those doing business with it. And commerce and the country in general benefit by such confidence and guarantee.

CONCLUSIONS.

With our present system, the charters of all banks expire every ten years, on the first day of July. As it is, all the present charters will have to be renewed in 1911. Under these conditions, the country might be left completely without chartered banks if the renewals were not granted when the time comes, but this is only a theorical danger, and in practice the results are good. Banks are thus free from troubles or modifications in their charters or of any other kind for ten years, and they can settle to do business without being bothered for that time. For this reason, bankers think the term is too short and that it should be made twenty years, now that the principles of Canadian Banking are well established. Another important good result is that when the end of the term comes, banks must defend themselves against the attacks that are made on them, and when the charters are extended, the rules of banking can be modified at the same time for all banks, to the greater benefit and advantage of every

every one concerned and the public in general. Remedies are suggested to do away with the evils, and even by bankers who are in a better position to see the bad points and show the way to redress them. Thus our system grows more and more perfect.

We in Canada, had the advantage of the experience of all kinds of banking systems tried in all parts of the world. When time came for us to establish banks and to frame a Banking Act, all that experience could be put to profit and it is how we came to have a system so generally well-balanced and with so few defects. Our principal sources were England, Scotland and the United-States.

In England, the Bank of England was founded in 1688 to assist the Government in the difficult days of the Revolution, and was for a long time the only joint-stock bank in that country. Its notes were legal tender, except in Scotland where they were never such, but the Government was not responsible for their redemption. As it was established to help the Government, it was a condition that it should loan its money to the latter, and there never was a time when the whole of the capital failed to be thus loaned. The charter of the Bank of England was not followed as an example for the foundation of other joint-stock companies in England. Contrary to what exists in Canada and in the United-States, the banks of England are not governed by a general bank act. Moreover, except for a few laws regardind the limit of circulation and a few minor details, the banks are free to conduct business the way they see fit. It is a character of English banking that all banks keep an account with the Bank of England, and on that account, the latter is frequently called the "Bankers' Bank".

In the United-States, an early project to establish a bank similar to the Bank of England completely failed. Later on, numerous charters were granted to banks by the different States, with unlimited power to issue notes. These notes were after a time at a discount and some lost nearly

those systems, there were necessarily mistakes made with regard to the usefulness, efficacity and advantages of the banks established to the future of the country. Those mistakes can readily be seen. Our system, on the contrary, was born in time of peace, and the only need that was to be satisfied was that of the commercial community. So we took what had been proved to be good in other systems, and did not touch what was evidently bad.

To Scotland, we must be grateful for having given us its system of bank branches from which to draw our own. And it is surely one of the greatest advantages procured by our Banking Law.

Banking in Canada is absolutely free as in the United-States and in Scotland, and any one who can fulfil the preliminary requirements is completely at liberty to open a bank and enjoy the advantages of such a business. No bank monopoly as the Bank of England in England, exists here. Consequently, we do not have the private banks of England, altogether devoid of guarantee, but large and financially strong joint-stock bodies offering all the security that one could ask for. A proof of this is the immense business transacted by our banks and the figures to which amount their deposits. On this last item, they are respectively stronger than the big United-States banks, although the neighbouring Republic is a more advanced country than ours, and with a population many times larger than our own.

Hague says that a bank director should be:

A man of means;
A man of character;
A man of influence;
A man having connections in the leading lines of business;
A man who can work in harmony with others;
A man who can give enough time to the affairs of the bank;
And a good judge of the capacity of men.

After having studied all the qualities required of our bank directors, and the conditions they have to fulfil, and especially after seeing for a fact who are the

the men sitting at the boards of our banks, they can be safely said to have all the requirements above enumerated. And the directorate of any bank is its most important part, because the bank will be what the directors will make it.

Our Banking System has nothing to envy of those of other countries. It can be resumed in a few words, like this: perfect guarantee given to wilful creditors or depositors; complete security afforded to unwilling creditors who are the bill holders; facilities offered to traders, farmers and manufacturers; reasonable profit insured to shareholders; notes issued accepted at par throughout Canada; and lastly, a system of circulation having the necessary elasticity of expansion and contraction required to cope with the needs of the country. With all these advantages, one does not wonder that it commands public confidence.

Montreal, 1910.